- **Board of Directors**
  Business and Finance Committee

May 8, 2007 Board Meeting

9-3

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 premium estimates are not quotes, but expected costs. These expected costs are derived from Metropolitan's broker's experience with market conditions while securing estimates and actual binding quotes for other clients during recent months. The insurance carriers also may give indications to the broker and client as to what to expect regarding capacity for coverage limits, and expected premium rates for the coming year. Actual binding quotes are received once the carriers have completed their review of Metropolitan's underwriting and risk profile information. In June, staff will present a board letter to request authority to purchase insurance. In that letter the amounts are quoted premiums for the various lines of coverage. The existing Casualty and Property Insurance Program consists of the following lines of insurance coverage amounts expiring June 2007:

1. $25 million Aircraft Liability; Aircraft Hull coverage for assessed value
2. $5 million Crime coverage for exposures such as fraud, theft, faithful performance and employee dishonesty
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. $5 million Special Contingency coverage
7. $250,000 Travel Accident coverage
8. $25 million Workers' Compensation, and $1 million 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 ranging from 5 to 15 percent for this fiscal year due to general inflationary and exposure growth. **Attachment 1** compares the current coverages and premiums to those anticipated for fiscal year 2007/08.

Premiums for excess liability coverage, the largest portion of Metropolitan's casualty insurance budget, are expected to rise about five percent, from the current general aggregate of $919,000 to about $965,000. The increase in premium for excess Workers' Compensation coverage is expected to range from zero to five percent. The maximum expected increase of five percent from last year's premium of approximately $106,000 would be an increase to $111,000. From fiscal years 2002/03 to 2005/06, the self-insured retention was raised from $1 million to $5 million in response to terror risk related premium spikes for excess workers' compensation coverage. The rationale to increase the self-insured retention has been that the premium saved over a ten-year period would offset the financial risk of a "once in a decade" claim that would exceed the self-insurance coverage in that particular year. That analysis was based on calculations derived from the annual actuarial study using a best practices model. Now that premiums have stabilized, and may even decrease, staff is again evaluating the self-insured retention level for the excess workers' compensation coverage. If premiums are favorable and changes are indicated by the actuarial study, there may be opportunities to decrease the self-insured retention and maintain the coverage limit, or increase the self-insured retention and substantially increase the coverage limit from the current $25 million purchased last year. In addition, staff is evaluating the viability of purchasing property coverage for key facilities and structures. Historic fire rates are near a 20-year low, and although earthquake and flood rates have increased since 2005, there is capacity in the market for lower risk entities such as Metropolitan. A standard "all risk" property insurance policy, which covers most exposures excluding flood and earthquake, would likely cost about $.05 per $100 of coverage. A policy covering $100 million of value with a $100 million limit would therefore cost about $50,000. Flood and earthquake coverage can be expected to cost about $.40 per $100 of property value. A policy covering $100 million of value with a $25 million limit would therefore cost about $400,000. Historically, Metropolitan has not purchased these coverages because of a favorable loss history and financial position, and the ability to invest the funds, which would have been spent on premium. Preliminary analysis indicates that such coverages are not financially favorable.

Premium costs for Metropolitan's other excess and special policies will vary with line of coverage. The aircraft liability and hull policy premium would have been expected to increase about ten percent from last year when Metropolitan paid about $80,000. Since Metropolitan has sold one plane, the total premium cost will decrease even if the premium cost for each plane rises. The cost of the current crime policy is approximately $16,000. The cost for similar coverage for fiscal year 2007/08 is expected to increase by 5 to 10 percent. The Fiduciary Liability policies are expected to increase by as much as 20 percent from about $16,000 to $19,000 for this fiscal year. The excess general liability premiums are anticipated to increase up to five percent from the current general aggregate of $919,000 to about $965,000. Three-year policies for Special Contingency and Travel Accident last purchased in 2004, are also expiring. Metropolitan expects cost increases of about ten percent for both of those policies. When last purchased, the Special Contingency policy cost $7,800, and the Travel Accident policy about $32,000. To complete the insurance renewal for fiscal year 2007/08 with similar limits and retentions, and without adding new coverages, staff anticipates renewal costs of $1.2 million compared with $1.125 million expended in fiscal year 2006/07.

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.

Fiscal Impact

The total insurance premium cost is expected to range from about $1.2 million to $1.225 million if Metropolitan elects to decrease the self-insured retention for workers' compensation, or increase the limits of coverage on that policy. If Metropolitan elects to obtain property coverage for key facilities, and purchase an excess workers' compensation policy with a lower self-insured retention or higher limits than for fiscal year 2006/07, the total premium cost is expected to increase from $1.225 million to about $1.675 million for fiscal year 2007/08. If all coverages and self-insured retentions remain the same for fiscal year 2007/08 as they were in fiscal year 2006/07, total premium costs are expected to be approximately $1.2 million.

4/16/2007

Brian G. Thomas — *Date*
Chief Financial Officer

4/18/2007

Jeffrey Kightlinger — *Date*
General Manager

Attachment 1 – Insurance Premium Comparison

BLA #4850

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

Insurance Policy Type	2006/2007 Actual Insurance Premium	2007/2008 Estimated Insurance Premium	Estimated Insurance Premium Cost Change	Estimated Insurance Premium % Change
Excess General Liability - $35 million excess of $25 million SIR	387,197	406,500	19,303	5%
Excess General Liability Following Form - $40 million excess of $60 million SIR and first layer ■	352,459	370,000	17,541	5%
Fiduciary and Employee Benefits Liability - $35 million excess of $25 million SIR	13,891	17,500	3,609	20%
Public Officials Directors and Officers Liability - $25 million excess of $25 million SIR	147,733	162,500	14,767	10%
Crime - $5,000 deductible	15,744	17,500	1,756	10%
Excess Workers' Compensation (WC) - $5 million SIR	104,296	111,000	6,704	5%
Excess Workers' Compensation (WC) - $4 million SIR	NA	136,000	NA	NA
Special Contingency	7,800*	8,500	700	10%
Travel Accident	32,000*	35,000	3,000	10%
Aircraft Liability and Hull	80,170	68,000	(12,170)	(15%)
Total Expected Premiums - $5 million WC SIR	**1,101,490**	**1,196,500**	**95,010**	**8%**
Total Expected Premiums - $4 million WC SIR	NA	**1,221,500**	**120,010**	**10%**
Property	NA	50,000	NA	NA
Flood & Earthquake	NA	400,000	NA	NA
Total Expected Premiums - $4 million WC SIR, Property, Flood and Earthquake	NA	**1,671,500**	NA	NA

■ Excess limits over Fiduciary $25 million and excess limits over Directors & Officers $40 million.

* Insurance Premium covers a three-year period; July 1, 2004 – June 30, 2007. Not included in actual premium total for 2006/2007.

▲ Alliant Insurance Service Fees - $85,000 for FY 2005-2006, $90,000 for FY 2006-2007