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

June 12, 2007 Board Meeting

7-4

Subject

Approve up to $1.13 million to purchase insurance coverage for Metropolitan's Property and Casualty Insurance Program

Description

The existing Property and Casualty Insurance Program consists of the following lines of insurance coverage and amounts expiring in June 2007:

1. $25 million Aircraft Liability; Aircraft Hull coverage for assessed value
2. $5 million Crime coverage for exposures such as fraud, theft, and public 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. $25 million Workers' Compensation and $1 million Employers Liability coverage in excess of a $5 million self-insured retention
7. $5 million Special Contingency coverage
8. $250,000 Travel Accident coverage

Total premiums to renew and replace Metropolitan's property and casualty insurance policies for fiscal year 2007/08 will be approximately 2.3 percent higher than for the current fiscal year due to modest inflation and exposure growth, and the purchase of the three-year Travel Accident and Special Contingency policies that were not up for renewal last year. **Attachment 1** compares the current coverages and premiums to those proposed for fiscal year 2007/08. Insurance market conditions have stabilized and improved because losses to insurers arising from the 9/11 terror event and other catastrophic incidents have been absorbed, and insurance risk capacity has increased.

Each of the different lines of insurance coverage is described below:

General Liability – The excess general liability coverage, including the Fiduciary and Employee Benefits, and Public Officials, Directors and Officers liability policies, provides catastrophic coverage for claims in excess of Metropolitan's $25 million self-insured retention. The aggregate premium for this coverage is essentially unchanged at $918,034, from $918,600 for fiscal year 2006/07.

Workers' Compensation – Excess workers' compensation insurance protects Metropolitan against claims for workplace injuries. Once again, this coverage is designed to handle a catastrophic event such as multiple injuries occurring at the Headquarters facility due to a major disaster. Metropolitan is self-insured for the first $5 million, after which the $25 million policy limit would kick in. Staff looked at options to both increase and decrease the self-insured retention. There was very little benefit to increase the retention. If the retention were increased to $7.5 million, the premium would decrease from last year's by only $28,000. Similarly, decreasing the retention would not be cost-effective, as a $2.5 million reduction in the self-insured retention would increase the premium to $278,000. The cost of retaining the current $5 million self-insured retention and $25 million excess policy limit is $106,208, an increase of approximately $2,000 from last year's premium. As a result, staff recommends purchasing coverage at the same levels as last year.

Property – Metropolitan has not carried property insurance because of a favorable loss history, a strong financial position, and the ability to access capital markets to fund emergency repair projects. As reported in May, staff has been evaluating the merits of adding catastrophic "all risk," flood and earthquake coverage to Metropolitan's insurance portfolio. While premium increases for these types of insurance have moderated in recent years, $25 million in "all risk" and $25 million earthquake and flood coverage is estimated to cost over $450,000 per year. As such, staff recommends that Metropolitan continue its practice of self-insurance for property-related risk.

Specialty Coverages – Metropolitan also carries Aircraft Liability and Hull, Crime, Travel Accident and Special Contingency policies to complete its insurance portfolio. The aircraft liability and hull policy provides a $25 million aircraft liability limit, and hull or property coverage based on the assessed value of the planes. Last year a policy covering three planes cost approximately $80,000. A similar policy for 2007/08 covering two planes will cost $48,200. The crime policy provides $5 million coverage to protect against losses such as fraud, public employee dishonesty, and forgery. The cost of the current crime policy is approximately $15,750. The cost for similar coverage for fiscal year 2007/08 will be $14,500. The three-year term Travel Accident Policy provides $250,000 in coverage for directors, officers and employees injured while traveling on Metropolitan business. When last purchased in 2004, the Travel Accident Policy cost $32,000. The cost to obtain similar three-year coverage will be $31,834. The Special Contingency Policy, also with a three-year term, provides $5 million to protect against costs incurred for specific crimes committed against directors, officers and employees while working on behalf of Metropolitan. The cost to renew this policy will remain at approximately $7,800.

To complete the insurance renewal for fiscal year 2007/08 with similar limits and retentions, the cost is expected to be approximately $1.13 million compared with the $1.1 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

California Environmental Quality Act (CEQA)

CEQA determination for Options #1 and #2:

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

Option #1

Adopt the CEQA determination and approve up to $1.13 million to renew or replace the Aircraft Liability, Crime, Excess General Liability policies; Travel Accident, Special Contingency, and Excess Workers' Compensation policy; and retain the $5 million self-insured retention for the excess Workers' Compensation coverage.

Fiscal Impact: The anticipated $1.13 million to obtain coverage would result in an approximate $25,000 increase compared with the premium cost for fiscal year 2006/07.
Business Analysis: Protects Metropolitan's financial position against risk of catastrophic loss

Option #2

Adopt the CEQA determination and approve up to $1.10 million to renew or replace the Aircraft Liability, Crime, Excess General Liability policies; Travel Accident, Special Contingency, and Excess Workers' Compensation policy; and increase the self-insured retention to $7.5 million for the excess Workers' Compensation coverage.
Fiscal Impact: The anticipated $1.10 million to obtain coverage would result in an approximate $5,000 decrease compared with the premium cost for fiscal year 2006/07.
Business Analysis: Protects Metropolitan's financial position against risk of catastrophic loss

Staff Recommendation

Option #1

5/30/2007
Fidencio M. Mares *Date*
Director of Human Resources

5/30/2007
Jeffrey Kightlinger *Date*
General Manager

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

BLA #4854

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

Insurance Policy Type	Self-Insured Retention (SIR)	Coverage Limits	2006/2007 Actual Insurance Premium	2007/2008 Quoted Insurance Premium	2007/2008 Insurance Premium Cost Change	2007/2008 Insurance Premium % Change
Excess General Liability	$25 million	$35 million	387,197	395,673	8,476	2%
Excess General Liability Following Form	AEGIS layer	$40 million	352,459	358,806	6,347	2%
Fiduciary and Employee Benefits Liability	$25 million	$35 million	13,891	15,655	1,764	13%
Public Officials Directors and Officers Liability	$25 million	$25 million	147,733	147,668	(65)	0%
Crime - $5,000 deductible	$150,000	$5 million	15,744	14,500	(1,244)	(8%)
Excess Workers' Compensation – **Option 1**	$5 million	$25 million	104,296	106,208	1,912	2%
Excess Workers' Compensation – **Option 2**	$7.5 million	$25 million	NA	76,110	NA	NA
Special Contingency •	$0	$5 million	7,800	7,809	9	0%
Travel Accident •	$0	$250,000	32,000	31,834	(166)	(1%)
Aircraft Liability and Hull ▪	$0	$25 million	80,170	48,200	(31,970)	(40%)
Option 1 - Total Premiums	**NA**	**NA**	**1,101,490**	**1,126,353**	**25,510**	**2.3%**
Option 2 - Total Premiums	**NA**	**NA**	**NA**	**1,096,255**	**NA**	**NA**

• Insurance Premium covers a three-year period from July 1, 2004 through June 30, 2007. Premium total not included in 2006/2007 Actual Insurance Premium

▪ Coverage for three planes during 2006-07 and for two planes during 2007-08; $25 million for liability and assessed hull value

▲ Alliant Insurance Service Fees - $85,000 for FY 2005-2006 $90,000 for FY 2006-2007 $95,000 for FY 2007-08