



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

June 9, 2009 Board Meeting

8-8

Subject

Approve up to \$1.14 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 2009:

1. \$25 million Aircraft Liability coverage; Aircraft Hull coverage for assessed value
2. \$5 million Crime coverage for exposures such as fraud, theft, and public employee dishonesty in excess of a \$150,000 deductible
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 2009/10 will increase by approximately \$83,000 over the current fiscal year. The 7.8 percent increase reflects insurance industry investment losses, increased exposures arising from the current economic condition, inflation, and Metropolitan payroll growth. The premiums also include an approximately \$17,000 increase (about 16.7 percent) in the workers' compensation premium due to expected payroll growth and inflation, and previously excluded fringe benefits and pay categories. [Attachment 1](#) compares the current coverage and premiums to those proposed for fiscal year 2009/10.

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

General Liability – The Excess General Liability coverage, Fiduciary and Employee Benefits coverage, and Public Officials, Directors and Officers liability policies, provide catastrophic coverage for claims in excess of Metropolitan's \$25 million self-insured retention. The aggregate premium for these coverages has increased by about 5.7 percent, from \$911,735 in the current year, to \$962,703 for fiscal year 2009/10. Staff has looked at the option of raising the self-insured retention from \$25 million to \$35 million for the first layer of Excess General Liability coverage in an effort to reduce costs because there have been no potential covered losses nearing the \$25 million retention level, and risk exposures have remained mostly unchanged. An Excess General Liability policy with \$35 million in coverage, and a self-insured retention of \$35 million would cost \$354,073. The same

policy with the current self-insured retention of \$25 million would cost \$438,343. To renew the aggregate Excess Liability coverages and raise the self-insured retention to \$35 million on the first layer of Excess General Liability insurance would lower the aggregate Excess Liability coverage cost from \$962,703, to \$878,433 (about 8.8 percent) compared with renewing the aggregate, and keeping the \$25 million retention. While Metropolitan has not experienced a covered claim up to or above the \$25 million retention level, staff does not recommend increasing the self-insured retention because the \$84,270 premium savings does not justify increasing Metropolitan's exposure by \$10 million, or 40 percent at this time.

Workers' Compensation – Excess Workers' Compensation insurance protects Metropolitan against claims for workplace injuries and illnesses. 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 in losses, after which the \$25 million policy limit is in effect. Because rates over the last few years have been flat or decreasing, staff has looked at options to decrease the self-insured retention, or increase coverage limits. Metropolitan has not had a claim with costs up to or beyond the current \$5 million retention level. This year, premiums for Excess Workers' Compensation coverage have increased due to the economic cycle, inflation, and need to include fringe benefits and payroll categories that had previously been excluded.

If Metropolitan were to decrease the self-insured retention from \$5 million to \$2 million, the premium for the excess policy would be \$234,632, a cost increase of about \$134,000 over the current policy. Another carrier rated by AM Best as "A" (the current carrier is rated "A+") has offered a policy with \$50 million coverage limits with the same \$5 million self-insured retention, for about \$134,000, an increase of about \$33,000 over the cost of the expiring \$25 million limit policy. The cost of retaining the current carrier with the \$5 million self-insured retention and \$25 million excess policy limit is \$117,611, an increase of approximately \$16,800 over the expiring policy premium. Because the risk exposure remains consistent, and the current \$25 million coverage limit represents an adequate level of coverage, staff recommends retaining the current carrier, \$5 million retention and \$25 million coverage limit, instead of increasing the coverage limits to \$50 million for the additional \$16,389.

Specialty Coverage – 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 \$25 million Aircraft Liability, and Hull coverage based on the assessed value of the planes. In 2008/09, a policy covering two planes cost approximately \$42,000. There will be no change in price to renew the policy for fiscal year 2009/10. The crime policy provides \$5 million in coverage to protect against losses such as fraud, public employee dishonesty and forgery. The cost of the current crime policy is \$14,452. The cost of similar coverage for fiscal year 2009/10 will be \$14,803. The Travel Accident and Special Contingency policies are three-year policies and are not due for renewal until fiscal year 2010/11.

To complete the insurance renewal for fiscal year 2009/10 with similar limits and retentions, the cost is expected to be approximately \$1.14 million compared with the \$1.1054 million expended in fiscal year 2008/09.

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 \$1.14 million to renew or replace the Aircraft Liability, Crime, Excess General Liability policies (retaining the \$25 million retention) and Excess Workers' Compensation policy (retaining the \$5 million self-insured retention and \$25 million policy limit).

Fiscal Impact: The anticipated \$1.14 million, within the \$1.2 million budget, to obtain coverage would result in an approximate \$83,000 increase compared with the premium cost for fiscal year 2008/09.

Business Analysis: Protects Metropolitan's financial position against risk of catastrophic loss

Option #2

Adopt the CEQA determination and approve up to \$1.157 million to renew or replace the Aircraft Liability, Crime, Excess General Liability policies and Excess Workers' Compensation policy (retaining the \$5 million self-insured retention and increasing the coverage limit to \$50 million).

Fiscal Impact: The anticipated \$1.157 million, within the \$1.2 million budget, to obtain coverage would result in an approximate \$99,000 increase compared with the premium cost for fiscal year 2008/09.

Business Analysis: Protects Metropolitan's financial position against risk of catastrophic loss

Staff Recommendation

Option #1



Fidencio M. Mares
Director of Human Resources

6/2/2009
Date



Jeffrey Nightlinger
General Manager

6/2/2009
Date

Attachment 1 – Insurance Premium Comparison

BLA #6637

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

Insurance Policy Type	Self-Insured Retention (SIR)	Coverage Limits	2008/09 Actual Insurance Premium	2009/10 Quoted Insurance Premium	2009/10 Insurance Premium Cost Change	2009/10 Insurance Premium % Change
Excess General Liability	\$25 million	\$35 million	\$ 402,019	\$ 438,343	\$ 36,324	9%
Excess Liability Umbrella [■]	AEGIS layer	\$40 million	\$ 346,292	\$ 358,252	\$ 11,960	3.5%
Fiduciary and Employee Benefits Liability	\$25 million	\$35 million	\$ 15,272	\$ 17,032	\$ 1,760	11.5%
Public Officials Directors and Officers Liability	\$25 million	\$25 million	\$ 133,700	\$ 149,076	\$ 15,376	11.5%
Crime	\$150,000	\$5 million	\$ 14,452	\$ 14,803	\$ 351	2.4%
Aircraft Liability and Hull	-	\$25 million	\$ 41,867	\$ 41,867	0	0%
Excess Workers' Compensation – Option 1	\$5 million	\$25 million	\$ 100,806	\$ 117,611	\$ 16,805	16.7%
Excess Workers' Compensation – Option 2	\$5 million	\$50 million	-	\$ 134,000	\$ 33,194	32.9%
Special Contingency [*]	-	\$5 million	-	-	-	-
Travel Accident [*]	-	\$250,000	-	-	-	-
Total 2008/09 Premiums	-	-	\$1,054,408	-	-	-
Total 2009/10 Expected Premiums – Option 1	-	-	-	\$1,136,984	\$ 82,576	7.8%
Total 2009/10 Expected Premiums – Option 2	-	-	-	\$1,153,373	\$ 98,965	9.4%

[■] Total SIR (self-insured retention) and excess insurance coverage equaling \$100 million General Liability, \$85 million Fiduciary and \$90 million Directors & Officers.

^{*} Insurance premiums of \$7,809 and \$27,586 for Special Contingency and Travel Accident for 3 years of coverage were purchased in 2007.