THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

BOARD ACTION

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

6/8/2010 Board Meeting

7-1

Subject

Approve up to $1.128 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 2010:

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 2010/11 will increase by approximately $1,000 over the current fiscal year. The very slight cost increase was achieved in part due to moderating insurance industry investment losses and minimal inflation; and occurred despite increased exposures arising from the current economic condition and Metropolitan's payroll growth. In addition, the Special Contingency Crime and Travel Accident Policies, which are three years in duration and last purchased in 2007, were not part of the premium expended in 2009/10. Limiting the cost comparison to only those policies being renewed or replaced that were paid for last year, the total premium for 2010/11 will decrease about $33,000 from 2009/10. Despite industry losses stemming from catastrophic losses last year, the excess general liability policies quoted significantly lower than the eight percent increase anticipated in the Information Letter presented in May to the Business and Finance Committee. **Attachment 1** compares the current coverage and premium costs to those proposed for fiscal year 2010/11.

Staff also obtained the services of an actuary to review the self-insured retentions and coverage limits. The report determined that the retentions and limits were satisfactory for Metropolitan, and suggested that a higher self-insured retention could be used for the Workers' Compensation Program if cost-effective. This suggestion would be viable as long as the costs saved were significant enough to compensate for the incremental risk of utilizing a higher retention. Accordingly, Metropolitan obtained quotes for policies with higher retentions and also higher limits, and that will be discussed in the section on Workers' Compensation.

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

General Liability – The Excess General Liability, Fiduciary and Employee Benefits Liability, 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 0.8 percent, from $952,960 in the current year, to about $961,000 for fiscal year 2010/11. Staff initially reviewed 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. The excess general liability carriers did not quote at this higher retention. For 2010/11, the Excess General Liability Policy premium is $441,424, about 0.7 percent above the $438,343 paid for the expiring coverage. While Metropolitan has not experienced a covered claim loss up to or above the $25 million retention level, staff will continue to review higher retention levels and higher coverage limits as the insurance market reacts to catastrophic losses and economic cycles.

Workers' Compensation – Excess Workers' Compensation insurance protects Metropolitan for workplace injury and illness claims. 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 goes into effect. Because rates over the last few years have increased moderately, staff has looked at options to increase the self-insured retention to reduce costs. Alternatively, staff has looked at raising the coverage limit above the current $25 million, if cost-effective, to better protect Metropolitan from a catastrophic claim. The recent annual actuarial study also concluded that increasing the self-insured retention to $10 million with a $25-million excess policy would adequately protect Metropolitan.

It was initially anticipated that workers' compensation excess policy premium costs would rise up to 9 percent above the expiring policy cost due to insurance industry losses and a difficult economic cycle. However, quotes for excess workers' compensation premiums unexpectedly were significantly lower than for 2009/10, due to expanded capacity. The cost of retaining the current carrier, Midwest Employers Casualty Company, with a $5 million self-insured retention and $25 million excess policy limit will decrease by $24,014 (20.4 percent) from the expiring policy premium of $117,611. A second carrier, New York Marine & General Insurance Company (New York Marine) quoted a price of $84,114, or $9,483 less than the incumbent carrier's quote for a policy with the same retention and limits. This would represent a savings of $33,497 (28.48) percent, compared with fiscal 2009/10. New York Marine also provided a quote for a policy with the same retention and $50 million coverage limits for $94,693, an increase of $1,096 over Midwest's policy premium quote, but with double the coverage limit. While the risk exposure remains consistent, and the current $25 million coverage limit represents an adequate level of coverage, this is an opportunity to obtain a substantially higher level of catastrophic coverage more resembling "statutory limits." The policy with the additional $25 million in coverage would cost $10,579 more than the lowest quote (12.6 percent), and would provide $2,363 of coverage for each additional dollar of premium over the cost of the lowest quoted policy with $25 million limits. The lowest cost premium quote with $25 million limits provides $297.2 of coverage for each dollar of premium. While the cost of incremental coverage would be expected to cost significantly less than for the first $25 million, it is cost-effective to increase the limits to $50 million at this comparatively small incremental amount. This policy with double the coverage limits will cost about $23,000 (19.5 percent) less than the expiring policy. Staff recommends increasing the limits to $50 million and purchasing the coverage from New York Marine.

In addition, Metropolitan is required to obtain coverage for its two full-time employees in Washington, D.C., at a price of $949. Metropolitan is a qualified self-insurer in California, but has been advised that the District of Columbia does not recognize Metropolitan's status as a qualified California self-insurer for its employees working in the District of Columbia. To bridge this gap, Metropolitan will purchase this coverage on a temporary basis, and is applying with the District of Columbia for authority to become a qualified self-insurer.

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 2009/10, a policy covering Metropolitan's two planes cost $41,867. The cost to replace that policy with identical coverage for fiscal year 2010/11 is approximately $25,000. 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 $14,803. The cost of similar coverage for fiscal year 2010/11 will decrease to about $12,100. The Travel Accident and Special Contingency Policies with three-year terms were last purchased during fiscal year 2007/08. The cost for the Travel Accident Policy was $27,586, and will have no change in price. The Special Contingency Policy cost $7,809 in fiscal year 2007/08, and will cost approximately $6,000 for a new three-year term.

To complete the insurance renewal for fiscal year 2010/11, with similar limits and retentions, increase the coverage limit for workers' compensation to $50 million, and add coverage for the Washington, D.C. employees is expected to cost approximately $1.128 million compared with the $1.127 million expended in fiscal year 2009/10.

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 $1.128 million to renew or replace the Aircraft Liability, Crime, Travel Accident and Special Contingency Policies, Excess General Liability Policies, Excess Workers' Compensation Policy with increased limits of $50 million; and obtain coverage for the employees in Washington, D.C.
Fiscal Impact: The anticipated $1.128 million, within the $1.25 million budget, to obtain coverage would result in an approximate $1,000 increase compared with the premium cost for fiscal year 2009/10.
Business Analysis: Protects Metropolitan's financial position against risk of catastrophic loss

Option #2

Adopt the CEQA determination and approve up to $1.118 million to renew or replace the Aircraft Liability, Crime, Travel Accident and Special Contingency Policies, Excess General Liability Policies, Excess Workers' Compensation Policy maintaining the existing $25 million limit; and obtain coverage for the employees in Washington, D.C.
Fiscal Impact: The anticipated $1.118 million, within the $1.25 million budget, to obtain coverage would result in an approximate $10,000 decrease compared with the premium cost for fiscal year 2009/10.
Business Analysis: Protects Metropolitan's financial position against risk of catastrophic loss

Staff Recommendation

Option #1

5/26/2010

Fidencio M. Mares *Date*
Director of Human Resources

5/26/2010

Jeffrey Kightlinger *Date*
General Manager

Attachment 1 – Insurance Premium Comparison

Ref# cfo12604057

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

Insurance Policy Type	Self-Insured Retention (SIR)	Coverage Limits	2009/10 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	$ 438,344	$ 441,424	$ 3,080	1%
Excess Liability Umbrella ■	AEGIS layer	$40 million	$ 355,928	$ 356,015	$ 87	0%
Fiduciary and Employee Benefits Liability	$25 million	$35 million	$ 17,032	$ 17,036	$ 4	0%
Public Officials Directors and Officers Liability	$25 million	$25 million	$ 141,656	$ 146,153	$ 4,497	3%
Crime	$150,000	$5 million	$ 14,803	$ 12,097	$ (2,706)	(18)%
Aircraft Liability and Hull	$1,000	$25 million	$ 41,867	$ 25,876	$ (15,991)	(38)%
Excess Workers' Compensation, CA – **Option 1**	$5 million	$50 million	-	$ 94,693	$ (22,918)	(19)%
Excess Workers' Compensation, CA – **Option 2**	$5 million	$25 million	$ 117,611	$ 84,114	$ (33,497)	(28)%
Excess Workers' Compensation, D.C.	$0	Statutory	-	$ 949	$ 949	100%
Special Contingency *	$0	$5 million	-	$ 5,959	-	-
Travel Accident *	$0	$250,000	-	$ 27,586	-	-
Total 2009/10 Premiums	-	-	**$ 1,127,241**	-	-	-
Total 2010/11 Expected Premiums – Option 1	-	-	-	**$ 1,117,209**	**$ (10,032)**	**(1)%**
Total 2010/11 Expected Premiums – Option 2	-	-	-	**$ 1,127,788**	**$ 547**	**0%**

■ 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.