- Board of Directors
  Finance and Insurance Committee

6/12/2012 Board Meeting

7-1

Subject

Approve up to $1.091 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 2012:

1. $25 million Aircraft Liability coverage; Aircraft Hull coverage for assessed value
2. $5 million Crime coverage for exposures such as fraud, theft, faithful performance, and 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. $50 million Workers' Compensation, and $1 million Employers Liability coverage, in excess of a $5-million self-insured retention; statutory coverage for Washington, D.C. employees
7. $25 million Property Damage coverage for stated value of stored property and identified locations

Metropolitan's property and casualty insurance policy premiums for fiscal year 2012/13 will increase by approximately 4.1 percent from $1.043 million for the current fiscal year to approximately $1.09 million. This premium increase of about $48,000 is smaller than initially anticipated, and was achieved despite insurance market volatility caused by rising inflation, economic uncertainty, and large industry-wide property and casualty losses. **Attachment 1** compares the current coverage and premium costs to those proposed for fiscal year 2012/13.

Self Insured Retention and Excess Limits

Staff periodically reviews the self-insured retention levels and excess coverage limits to ensure that coverage is adequate, and to control premium costs. This is completed with the services of actuarial consultants, input from Metropolitan's risk and insurance broker, and comparisons with other like agencies. In fiscal year 2010/11 a formal actuarial report on the status of Metropolitan's self-insured retentions was completed, and it was determined that the retention levels and excess coverage limits were satisfactory for Metropolitan. The report also suggested that a higher self-insured retention could be used for the Workers' Compensation Program if cost-effective. The cost savings was not worth the added risk of raising the retention at that time. Metropolitan did take advantage of lower premiums by raising the policy limit on the Excess Workers' Compensation coverage to $50 million in fiscal year 2011/12. The $50 million coverage amount, achieved without a cost increase compared with the previous year, was considered appropriate for the risk profile of Metropolitan. Because premiums are fairly stable with moderate premium increases for this coverage, staff is recommending maintaining the same $5 million self-insured retention and $50 million coverage limit obtained last year. There are no staff recommended changes to the retention levels, or insurance limits for fiscal year 2012/13; however, a cost comparison and coverage option is offered in the body of this letter.

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

General Liability – The Excess General Liability and General Liability Umbrella policies, Fiduciary and Employee Benefits Liability, and Public Officials, Directors and Officers Liability excess 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 $37,440 (4.1%) from $907,560 in the current year, to about $945,000 for fiscal year 2012/13. Staff initially looked into 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 stable. However, the excess general liability carriers did not quote at this higher retention. Staff will continue to evaluate retention levels and coverage limits for value opportunities as the insurance market reacts to catastrophic losses and economic cycles.

Workers' Compensation – Excess Workers' Compensation insurance protects Metropolitan against the financial exposure of workplace injury and illness claims. This coverage is designed to handle a catastrophic event such as multiple injuries occurring at the Headquarters facility, for example, due to a major disaster. Metropolitan is self-insured for the first $5 million in losses, after which the $50 million policy limit goes into effect. During the first few years after the 9/11 terrorist attack, staff looked to increase the self-insured retention to contain premium costs, which rose due to that and other global events. In the last few years, premiums have leveled, and even declined during fiscal year 2011/12. Consequently, Metropolitan took advantage of the premium reduction, and increased the coverage limit from $25 million to $50 million last year. Metropolitan's total excess Workers' Compensation premium cost also includes a first dollar policy covering Washington, D.C.-based employees. Because premium costs have risen during the past year, there is no advantage of reducing the self-insured retention from $5 million to $2.5 million, while maintaining the $50 million excess coverage. The cost of a policy to reduce the retention to $2.5 million with the same coverage limits is about $225,000, an increase of over $130,000 compared with the approximately $95,000 for the current year. The cost for the Excess Workers' Compensation policy maintaining the $5 million retention with $50 million coverage limit, and/or the policy covering Washington, D.C. employees would be $97,883, an increase of $2,324 from fiscal year 2011/12. Based on Metropolitan's stable claims history and risk profile, and the current premium stability, staff recommends keeping the current self-insured retentions and insurance limits.

Specialty Coverages – Metropolitan also carries Aircraft Liability and Hull, Crime, Property Damage, 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 fiscal year 2011/12, a policy covering Metropolitan's two planes cost $25,876. There is no change in the cost to replace that policy with identical coverage for fiscal year 2012/13. 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 $12,097, and the premium for this policy will also remain unchanged for fiscal year 2012/13. The Property Damage policy covering specific sites damaged by the fall 2009 fires, and ozone equipment stored offsite cost $7,692 in the current year. For fiscal year 2012/13 the premium is estimated to increase by up to 20 percent to approximately $9,230. The large percentage increase is attributed to catastrophic related property losses suffered by insurance carriers during the past year. Unlike the other premium figures, this is a cost estimate as the actual premium was not available before the mailing of this letter. Metropolitan's Special Contingency and Travel Accident policies, both three years in duration and renewed in fiscal year 2010/11, are not up for renewal.

To complete the insurance renewal for fiscal year 2012/13, with similar limits and retentions, and maintain the coverage limit for workers' compensation at $50 million, with coverage for the Washington, D.C. employees, the cost is expected to be slightly over $1.090 million compared with the approximately $1.043 million expended in fiscal year 2011/12.

Policy

Metropolitan Water District Administrative Code Section 5202: Fund Parameters

Metropolitan Water District Administrative Code Section 6413: Insurance Program

Metropolitan Water District Administrative Code Section 9101: Risk Retention and Procurements of Insurance

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 $1.091 million to renew or replace the Aircraft Liability, Crime, Property Damage, Excess General Liability Policies, and Excess Workers' Compensation Policy maintaining the existing $5 million self-insured retention, coverage limits of $50 million; and obtain coverage for the employees in Washington, D.C.

Fiscal Impact: The anticipated $1.091 million, within the $1.375 million budget, to obtain coverage would result in an approximate $48,000 increase compared with the premium cost for fiscal year 2011/12.

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

Option #2

Adopt the CEQA determination and approve up to $1.221 million to renew or replace the Aircraft Liability, Crime, Property Damage, Excess General Liability policies, and Excess Workers' Compensation policy with a reduced self-insured retention of $2.5 million, coverage limits of $50 million; and obtain coverage for the employees in Washington, D.C.

Fiscal Impact: The anticipated $1.221 million, within the $1.375 million budget, to obtain coverage would result in an approximate $178,000 increase compared with the premium cost for fiscal year 2011/12.

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

Staff Recommendation

Option #1

5/21/2012

Fidencio M. Mares *Date*
Director of Human Resources

5/23/2012

Jeffrey Kightlinger *Date*
General Manager

Attachment 1 – Insurance Premium Comparison

Ref# hr12617195

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

Insurance Policy Type	Self-Insured Retention (SIR)	Coverage Limits	2011/12 Actual Insurance Premium	2012/13 Quoted Insurance Premium	2012/13 Insurance Premium Cost Change	2012/13 Insurance Premium % Change
Excess General Liability	$25 million	$35 million	$ 390,372	$ 402,970	$ 12,597	3%
Excess Liability Umbrella ■	AEGIS layer	$40 million	$ 369,087	$ 371,352	$ 2,264	1%
Fiduciary and Employee Benefits Liability	$25 million	$35 million	$ 20,650	$ 20,650	$ 0	0%
Public Officials Directors and Officers Liability	$25 million	$25 million	$ 121,830	$ 150,074	$ 28,244	19%
Crime	$150,000	$5 million	$ 12,097	$ 12,097	$ 0	0%
Aircraft Liability and Hull	$1,000	$25 million	$ 25,876	$ 25,876	$ 0	0%
Excess Workers' Compensation, CA – **Option 1**	$5 million	$50 million	$ 94,577	$ 96,894	$ 2,317	2%
Excess Workers' Compensation, CA – **Option 2**	$2.5 million	$50 million	$ 94,577	$ 225,000	$ 130,423	58%
Excess Workers' Compensation, D.C.	$0	Statutory	$ 982	$ 989	$ 7	1%
Property – Estimate for 2012/13	$0	Asset value	$ 7,692	$ 9,230	$ 1,538	20%
Special Contingency [i]	$0	$5 million	-	$ 5,959	-	-
Travel Accident [*]	$0	$250,000	-	$ 27,586	-	-
Total Expected Premiums – Option 1	-	-	**$ 1,043,165**	**$ 1,090,132**	**$ 49,967.63**	**4%**
Total Expected Premiums – Option 2	-	-	**$ 1,043,165**	**$ 1,218,238**	**$ 175,073.63**	**14%**

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

[i] Insurance premiums expiring June 2013, three-year coverage purchased in July 2010.