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

6/11/2013 Board Meeting

7-2

Subject

Approve up to $1.161 million to purchase insurance coverage for Metropolitan's Property and Casualty Insurance Program

Executive Summary

The existing Property and Casualty Insurance Program consists of the following lines of insurance coverage and amounts expiring in June 2013:

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. $5 million Special Contingency Coverage
8. $250,000 Travel Accident Coverage
9. $25 million Property Damage coverage for up to the stated property value

Metropolitan's property and casualty insurance policy premiums for fiscal year 2013/14 will increase by approximately 6.8 percent from $1.086 million for the current fiscal year to approximately $1.161 million. This premium increase of about $75,000 is lower than initially anticipated, and was achieved despite insurance industry market volatility caused by poor investment performance, continuing losses in the Workers' Compensation and Property lines, and mild inflation. **Attachment 1** compares the current coverage and premium costs to those proposed for fiscal year 2013/14.

Details

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 insurance broker, and comparisons with other like agencies. During this fiscal year a formal actuarial report to review both the adequacy of Metropolitan's self-insured reserves as well as its retention levels relative to loss experience was completed. It concluded that reserves are adequate and that the retention levels and excess coverage limits were appropriate for Metropolitan. The report did suggest that Metropolitan could take advantage of additional savings by going completely self-insured for Workers' Compensation given that with a current $5 million retention, the likelihood of that dollar value ever being pierced in a single event is remote. The loss adjusted savings by going completely self-insured is estimated at about $40,000 per year. However, our broker believes that this may be optimistic given minimum premium thresholds in effect. At $40,000 saved per year, or even using the approximately $100,000 premium cost saved without adjusting for future losses, staff does not believe that such savings warrant the acceptance of the additional financial risk Metropolitan would assume from a catastrophic event. If Metropolitan were completely self-insured for Workers' Compensation, it would be exposed to an additional $50 million Workers' Compensation liability which is currently covered.

Metropolitan did take advantage of obtaining a lower premium rate by raising the policy limit on the Excess Workers' Compensation coverage to $50 million from $25 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 Metropolitan's risk profile. While some California public entities carry statutory limits on their excess Workers' Compensation coverage, it is not a good option for Metropolitan due to excessive premium costs. Because costs are fairly stable with only moderate increases for this coverage, staff is recommending maintaining the same $5 million self-insured retention and $50 million coverage limit obtained last year. While there are no staff recommended changes to the retention levels or insurance limits for fiscal year 2013/14, 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 $61,905, about 6.7 percent, from $921,453 in the current year, to about $983,400 for fiscal year 2013/14. 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 increased the self-insured retention to contain premium costs, which rose due to that and other global events. In the last few years, premiums have continued to level, 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. 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 $128,000 compared with the approximately $97,000 for the current year. The cost for the Excess Workers' Compensation policy maintaining the $5 million retention with $50 million coverage limit, and for the policy covering Washington D.C. employees would be $101,693 ($100,811 for the excess policy and $882 for the policy covering Washington D.C. employees), an increase of $3,810 from fiscal year 2012/13. Based on Metropolitan's stable claims history and risk profile, and the current premium stability, staff recommends keeping the current self-insured retention and insurance coverage limit.

Another option is for Metropolitan to eliminate the premium for Excess Workers' Compensation coverage entirely and save approximately $100,000 per year introduced earlier in this letter. Based on the actuarial study of the self-insured retentions undertaken this fiscal year, the actual risk adjusted savings is about $40,000 per year.

The actual amount of premium saved would be the $100,811 quoted to the current policy. However, this option would leave Metropolitan vulnerable to a disaster such as an earthquake or terrorist event where multiple injuries occurred at one time. Currently, Metropolitan would pay for up to the first $5 million, and the excess coverage would pick up the next $50 million in this scenario. By going completely self-insured, Metropolitan would be exposed to the entire cost of the catastrophe.

Property Insurance – The property insurance policy covering specific sites damaged by the fall 2009 fires and equipment stored offsite cost $7,692 in the current year. For fiscal year 2013/14 the premiums were expected to rise by up to 20 percent approximately. The policy will only cover the structures damaged by the 2009 fires as Metropolitan no longer needs the coverage on the ozone equipment. The larger percentage increase, despite the deletion of property coverage is attributed to catastrophic related property losses suffered by insurance carriers during the past year. The premium for this fiscal year will not exceed $4,000, and will only cover the previously damaged structures. The actual quote was not yet available when this letter was completed.

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 2012/13, a policy covering Metropolitan's two planes cost $25,876. For the upcoming fiscal year the cost of identical coverage will be $24,609. The Crime Policy provides $5 million in coverage with a $150,000 deductible, 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 increase to $12,893 for 2013/14. Metropolitan's Special Contingency and Travel Accident policies, both three years in duration and renewed last in 2010/11, are now up for renewal. The Special Contingency Crime Policy cost $5,959 in 2010/11 and will remain the same for the next three years. The Travel Accident Policy premium will also remain the same for the next three year period at $27,586.

To complete the insurance renewal for fiscal year 2013/14, with similar limits and retentions, and maintain the coverage limit for workers' compensation at $50 million, with coverage for the Washington, D.C. employees, and renew the three-year Travel Accident and Special Contingency Crime Policies last renewed in fiscal year 2010/11, the cost is expected to be $1.161 million compared with the approximately $1.086 million expended in fiscal year 2012/13.

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 action is not defined as a project under CEQA because it involves continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it involves 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 action is 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 $1.161 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 $1.161 million, within the $1.375 million budget, to obtain coverage would result in an approximate $75,000 cost increase compared with the premium cost for fiscal year 2012/13.

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

Option #2

Adopt the CEQA determination and approve up to $1.057 million to renew or replace the Aircraft Liability, Crime, Property Damage, Excess General Liability Policies, but eliminate the Excess Workers' Compensation Policy, and obtain coverage for the employees in Washington, D.C.

Fiscal Impact: The anticipated $1.057 million, within the $1.375 million budget, to obtain coverage would result in an approximate $29,000 decrease compared with the premium cost for fiscal year 2012/13.

Business Analysis: Would increase Metropolitan's exposure to potential catastrophic workers' compensation losses compared to option #1

Staff Recommendation

Option #1

5/21/2013

Fidencio M. Mares — *Date*
Director of Human Resources

5/29/2013

Jeffrey Kightlinger — *Date*
General Manager

Attachment 1 – Insurance Premium Comparison

Ref# hr12623789

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

Insurance Policy Type	Self-Insured Retention (SIR)	Coverage Limits	2012/13 Insurance Premiums	2013/14 Estimated Insurance Premium Cost	2013/14 Insurance Premium Cost Change	2013/14 Insurance Premium % Change
Excess General Liability	25 million	35 million	402,970	435,262	32,292	7%
Excess Liability Umbrella ▪	AEGIS layer	40 million	371,352	375,236	3,884	1%
Fiduciary and Employee Benefits Liability	25 million	35 million	20,650	25,800	5,150	20%
Public Officials Directors and Officers Liability	25 million	25 million	147,131	147,060	(71)	0%
Crime	150,000	5 million	12,097	12,893	796	6%
Aircraft Liability and Hull	1,000	25 million	25,876	24,609	(1,267)	(5%)
Excess Workers' Compensation, CA – **Option 1**	5 million	50 million	96,894	100,811	3,917	4%
Excess Workers' Compensation, CA – **Option 2**	0	0	0	0	(96,894)	100%
Excess Workers' Compensation, D.C.	0	Statutory	989	882	(107)	(12%)
Property – Estimate for 2012/13	0	Asset value	8,413	4,000	(4,413)	(52%)
Special Contingency *	0	5 million	5,959	5,959	0	0%
Travel Accident *	0	250,000	27,586	27,586	270	1%
Total Premiums – Option 1	**-**	**-**	**1,086,071**	**1,160,368**	**74,297**	**6%**
Total Premiums – Option 2	**-**	**-**	**1,086,071**	**1,059,557**	**(26,514)**	**(3%)**

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

* Insurance premiums expiring June 2013, three-year coverage purchased in July 2010.