THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

BOARD ACTION

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

6/9/2015 Board Meeting

7-1

Subject

Approve up to $1.168 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 in the amounts listed below. Except for the Specialty Contingency and Travel Accident policies, coverages expire June 30, 2015.

1. $25 million Aircraft Liability coverage; Aircraft Hull coverage up to the planes' 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. Property Damage coverage for up to the stated property value

If Metropolitan maintains the same coverage limits and retentions and adopts a coverage change for the Workers' Compensation policy, the Property and Casualty Insurance Policy premiums for fiscal year 2015/16 will increase by up to 3.4 percent from about $1.129 million for the current fiscal year, to approximately $1.168 million. This anticipated premium increase of about $39,000 is lower than initially anticipated, and will be achieved despite insurance market volatility caused by poor industry investment performance, rising workers' compensation claims and medical costs, litigation-driven increasing Public Officials, Directors and Officers Liability (D&O) premiums, and mild inflation. **Attachment 1** compares the current coverage and premium costs to those proposed for fiscal year 2015/16.

Details

Self-Insured Retention and Excess Limits

For all coverages staff reviews the self-insured retention levels and excess coverage limits to ensure that coverage is adequate, to control premium costs, and to take advantage of coverage limit increases or retention changes when the insurance market creates opportunities. This process is completed with the services of actuarial consultants, review from Metropolitan's insurance broker and Metropolitan staff, and comparisons with other like agencies. Metropolitan took advantage of lower coverage rates in fiscal year 2011/12 by raising the policy limit on the Excess Workers' Compensation coverage to $50 million from $25 million. 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 has not been an option for Metropolitan in the past due to excessive premium costs.

As Metropolitan's exposures remain stable, staff is recommending maintaining the same self-insured retentions and excess limits for the general liability program. Metropolitan has an opportunity to increase the Excess Workers' Compensation coverage from $50 million in excess of the $5 million self-insured retention, to a statutory limit without a cost increase. A statutory limit within the state of California is advantageous as there is no limit on medical costs, which could come into play as a result of a catastrophic event. Staff is recommending this policy limit change for fiscal year 2015/16. 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 D&O excess policies provide catastrophic coverage for claims in excess of Metropolitan's $25 million self-insured retention. The aggregate premium for these coverages will increase by about $9,800, approximately 1.0 percent, from $999,143 in the current year, to $1,008,930 for fiscal year 2015/16. At this writing, quotes for lower D&O coverage limits as requested at the May F&I Committee Meeting were not available, but options will be presented at the June F&I Committee Meeting.

Workers' Compensation – Excess Workers' Compensation insurance protects Metropolitan against the financial exposure of workplace injury and illness claims. This coverage is designed to handle an individual's catastrophic injury, or an 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. Metropolitan also carries a separate first dollar (no deductible) policy to cover employees based in Washington, D.C. Over the last 15 years, Metropolitan has adjusted its self-insured retention and coverage limit as a result of changes in the insurance market to maintain cost-efficient and adequate coverage. To control sky-rocketing premium costs which occurred during the early 2000s as a result of the 9/11 terrorist attacks and other global events, Metropolitan increased the self-insured retention to its current level. In the last few years, premiums have leveled, and even declined first 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 also benefits from having a stable workers' compensation claim history which helps keep premium costs in check. Metropolitan's Experience rating or "Ex Mod", which assesses an organization's claims performed based on payroll and claims history versus other California businesses in the industry, has been calculated at 0.76. A score below the benchmark or average of 1.00 is a positive reading; a score above 1.00 is negative.

For fiscal year 2015/16, premium costs will decline slightly which provides Metropolitan with new coverage options. As in past years, staff requested underwriters' estimates for coverage with lower self-insured attachment points. This year, staff obtained an estimate for $50 million coverage with a $2.5 million retention level. The cost of that policy is estimated at $270,000, an increase of nearly $161,000 compared with the $109,123 paid in the current year. Based on the stable nature of Metropolitan's Workers' Compensation risk, there is no advantage to decrease the self-insured retention to this level. Metropolitan can renew the current coverage with a $5 million retention and $50 million coverage limit, at a cost of $95,953 and the first dollar policy covering Washington, D.C. employees at a cost of $983 for a total of $96,936, a decrease of about $13,170 from fiscal year 2014/15.

Metropolitan also obtained another option from a different carrier with the same $5 million self-insured retention, but with statutory coverage limits. That policy was quoted at $100,473. For this additional $4,520 versus the cost of renewing the current $50 million limit policy, Metropolitan can enhance its program with additional protection against a catastrophic event. Changing carriers and obtaining the statutory limits coverage will still reduce costs by about $8,500 compared with the 2014/15 policy premium, and is recommended by staff.

Property Insurance – Metropolitan's only Property insurance policy was $1,677 in the current fiscal year and will remain unchanged for fiscal year 2015/16.

Specialty Coverages – Metropolitan also carries Aircraft Liability and Hull coverage, 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 up to the assessed value of the planes. In fiscal year 2014/15, a policy covering Metropolitan's two planes cost $24,609. This year the premium may increase by up to 70 percent to approximately $42,000 because Metropolitan has purchased a more valuable plane compared with the one that will be retired in July 2015. Quotes for this coverage and additional options with higher hull deductibles, will be available and presented at the June 8 F&I Committee. 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 $12,981. The premium for this policy will increase to $13,245 for 2015/16. Metropolitan's Special Contingency and Travel Accident policies, both three years in duration and last purchased in 2013/14, are not up for renewal until 2016/17.

The insurance renewal for fiscal year 2015/16, with similar limits and retentions, and maintaining the $5 million retention with either $50 million or statutory coverage limits for Excess Workers' Compensation, is expected to cost up to $1.168 million compared with the approximately $1.129 million expended in fiscal year 2014/15.

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 defined as a project and 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 that the proposed action is not defined as a project and is not subject to CEQA, and

Approve up to $1.163 million to renew the expiring excess liability and specialty insurance policies, and maintain the same retentions and coverage limits.

Fiscal Impact: The anticipated $1.163 million, within the $1.3 million budget, to renew the expiring policies would result in an approximate $34,000 increase compared with the premium cost for fiscal year 2014/15.
Business Analysis: Protects Metropolitan's financial position against the risk of catastrophic loss

Option #2

Adopt the CEQA determination that the proposed action is not defined as a project and is not subject to CEQA, and

Approve up to $1.168 million to renew the expiring excess liability and specialty insurance policies, and change the Excess Workers' Compensation coverage limit from $50 million to statutory limits.

Fiscal Impact: The anticipated $1.168 million, within the $1.3 million budget, to renew the expiring policies would result in an approximate $39,000 increase compared with the premium cost for fiscal year 2014/15.

Business Analysis: Would increase protection of Metropolitan's financial position against the risk of catastrophic loss

Staff Recommendation

Option #2

5/28/2015

Fidencio Mares — *Date*

Director of Human Resources

5/28/2015

Jeffrey Kightlinger — *Date*

General Manager

Attachment 1 – Insurance Premium Comparison

Ref#hr12637481

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

Insurance Policy Type	Self-Insured Retention (SIR)	Coverage Limits	2014/15 Insurance Premium	2015/16 Quoted / Estimated Insurance Premium	2015/16 Insurance Premium Cost Change	2015/16 Insurance Premium % Change
Excess General Liability	$25 million	$35 million	$444,556	$454,343	$9,787	2.2%
Excess Liability Umbrella ■	AEGIS layer	$40 million	$376,567	$376,567	$0	0%
Fiduciary and Employee Benefits Liability	$25 million	$35 million	$30,960	$30,960	$0	0%
Public Officials Directors and Officers Liability ❖	$25 million	$25 million	❖ $127,520	$147,060	$19,540	15.3%
Crime	$150,000	$5 million	$12,981	$13,245	$264	2%
Aircraft Liability and Hull ▲	$1,000	$25 million	$24,609	▲ $42,000	$17,391	70.7%
Option 1 - Excess Workers' Compensation, CA	$5 million	$50 million	$109,123	$95,953	($13,170)	(12.7%)
Option 2 - Excess Workers' Compensation, CA	$5 million	Statutory	NA	$100,473	($8,650)	(9%)
Excess Workers' Compensation, D.C.	$0	Statutory	$ 984	$983	($1)	(1%)
Property	$0	Asset value	$1,677	$1,677	$0	0%
Special Contingency ●	$0	$5 million	-	-	-	-
Travel Accident ●	$0	$250,000	-	-	-	-
Option 1 – Total Premiums	-	-	**$1,128,977**	**$1,162,788**	**$33,811**	**3.0%**
Option 2 – Total Premiums	-	-	**$1,128,977**	**$1,167,308**	**$38,331**	**3.4%**

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

❖ Includes deduction for continuity credit of $19,540. Credit for 2015/16 yet to be determined.

▲ Premium estimate.

● Insurance premiums expire June 2016, three-year coverage purchased in July 2013.