



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

6/14/2016 Board Meeting

7-1

Subject

Approve up to \$1.153 million to purchase insurance 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, which expire on June 30, 2016, in the amounts listed below.

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. Statutory 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 up to the stated property value

If Metropolitan maintains the same coverage limits and retentions, the Property and Casualty Insurance Policy premiums for fiscal year 2016/17 will increase by about two percent, from about \$1.13 million for the current fiscal year, to approximately \$1.153 million. This total premium is approximately \$68,000 lower than initially anticipated, and will be achieved despite an insurance market environment characterized by poor industry investment performance, rising workers' compensation medical costs, and mild inflation. [Attachment 1](#) compares the current coverage and premium costs to those proposed for fiscal year 2016/17.

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, premium costs are controlled, and to take advantage of potential coverage limit increases or self-insured retention reductions 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. While all coverage limits and retentions are reviewed to maintain appropriate coverage at cost-effective rates, there have been more changes to Metropolitan's self-insured retention and excess coverage limits for the Workers' Compensation policy than the other coverages during the last several

years due to international events and medical cost trends. Each of the different lines of insurance coverage is described below:

General Liability – The two layers of excess General Liability, Fiduciary and Employee Benefits Liability, and Directors and Officers Liability (D&O) policies provide catastrophic coverage for claims in excess of Metropolitan’s \$25 million self-insured retention, and make up the largest portion of Metropolitan’s casualty insurance premium budget. Premiums for these coverages will be flat or slightly lower for fiscal year 2016/17. The General Liability premiums will decrease about 1.2 percent, from \$671,565 for 2015/16, to \$663,503. Premiums for the D&O policies will also decrease slightly from \$259,056 last year to \$255,925 for 2016/17. The Fiduciary Liability policies will remain flat at \$45,604.

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 excess coverage with statutory limits 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 actively adjusted its self-insured retention and coverage limit in reaction to changes in the insurance market, in order to maintain cost-efficient and adequate coverage. To control sky-rocketing premium costs during the early 2000s resulting from the 9/11 terrorist attacks and other global events, Metropolitan increased the self-insured retention to its current level. Since fiscal year 2011/12 premium costs have leveled, and even declined. Consequently, Metropolitan took advantage of the premium rate reduction, and increased the coverage limit from \$25 million to \$50 million. Last year, Metropolitan again adjusted the coverage to take advantage of the market rates, and obtained statutory excess coverage without increasing costs over the previous year. A stable claims history and claims experience has also contributed to Metropolitan’s enhancement of coverage without increasing costs. Metropolitan’s claims experience rating or “Ex Mod”, which assesses an organization’s claims performance based on payroll and claims history versus other California businesses in the industry, has been calculated at 0.74. A score below the benchmark or average of 1.00 is a positive reading; a score above 1.00 is negative.

For fiscal year 2016/17, premium rates remain flat. The total premium costs will increase modestly from \$100,473 in fiscal year 2015/16, to \$102,645, because MWD payroll increased slightly. The renewal cost for the Washington, D.C. employees will also increase from \$1,090 to \$1,117. As in past years, staff requested underwriters’ estimates for coverage options with higher and lower self-insured attachment points if available. This year, staff obtained an estimate for coverage with statutory limits over a \$2-million retention level. The cost of that policy is estimated at \$190,000, an increase of nearly \$90,000 compared with the \$100,473 paid in the current year, and over \$87,000 above the quoted premium to maintain the \$5 million retention for 2016/17. Based on the stable nature of Metropolitan’s Workers’ Compensation exposure, and the significant cost increase to lower the retention, it is not cost-effective to decrease the self-insured retention to this level. Consequently, staff is recommending renewing the policy and retaining the \$5 million retention level.

Property Insurance – In order to have obtained reimbursement of over \$500,000 from the Federal Emergency Management Agency (FEMA) for damages resulting from the 2009 fall season fires, Metropolitan maintains a property insurance policy which cost \$1,712 last year. For fiscal year 2016/17 the premium will rise slightly to \$1,800.

Specialty Coverages – Metropolitan also carries Aircraft Liability and Hull coverage, 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 up to the assessed value of the planes. In fiscal year 2015/16, a policy covering Metropolitan’s two planes cost \$36,802. This year the premium will increase slightly to \$37,113. 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 Crime Policy will decrease slightly from \$13,245, to \$13,229 for the coming year. The cost of the three-year Special Contingency policy, last purchased in fiscal year 2013/14 for \$4,489, will cost \$4,487. The three-year Travel Accident policy will cost \$27,243 compared with \$27,586 paid in fiscal year 2013/14.

The insurance renewal for fiscal year 2016/17, with similar limits and retentions, and maintaining the \$5 million retention for the Excess Workers' Compensation policy, is expected to cost up to \$1.153 million compared with the approximately \$1.13 million expended in fiscal year 2015/16.

Policy

Metropolitan Water District Administrative Code Section 5201: Restricted Funds

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 \$1.153 million to renew all the expiring excess liability and specialty insurance policies, and maintain the same retentions and coverage limits.

Fiscal Impact: The anticipated \$1.153 million would result in an approximate \$23,000 increase compared with the premium cost for fiscal year 2015/16 and is within the \$1.2 million budget.

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 \$1.241 million to renew the expiring excess liability and specialty insurance policies, decrease the self-insured retention from \$5 million to \$2 million for the Excess Workers' Compensation policy for an additional \$87,500, and maintain the same retentions and policy limits for all other coverages.

Fiscal Impact: The anticipated \$1.241 million would be \$88,000 higher and \$41,000 over the \$1.2 million budget to renew expiring policies, and would result in an approximate \$110,500 increase compared with the premium cost for fiscal year 2015/16.

Business Analysis: The higher premium would increase Metropolitan's financial position against the risk of catastrophic loss, but at an additional cost of \$88,000.

Staff Recommendation

Option #1



Gary Breaux
Assistant General Manager/Chief Financial Officer

5/24/2016
Date



Jeffrey Lightlinger
General Manager

5/24/2016
Date

Attachment 1 – Metropolitan’s Casualty and Property Insurance Program Insurance Premium Comparison In Dollars

Ref# cfo1242429

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

Insurance Policy Type	Self-Insured Retention (SIR)	Coverage Limits	2015/16 Insurance Premiums	2016/17 Estimated Insurance Premium Cost	2016/17 Estimated Insurance Premium Cost Change	2016/17 Estimated Insurance Premium % Change
Excess General Liability [■]	\$25 million	\$75 million	671,565	663,503	(8,062)	(1%)
Fiduciary and Employee Benefits Liability [■]	\$25 million	\$60 million	45,604	45,604	0	0%
Public Officials Directors and Officers Liability [■]	\$25 million	\$65 million	259,055	255,925	(3,130)	(1%)
Crime	\$150,000	\$5 million	13,245	13,229	(16)	(1%)
Aircraft Liability and Hull	\$1,000	\$25 million	36,801	37,113	312	1%
Option 1 - Excess Workers' Compensation, CA	\$5 million	Statutory	100,473	102,645	2,172	2%
Option 2 - Excess Workers' Compensation, CA	\$2 million	Statutory	NA	190,000	89,527	89%
Excess Workers' Compensation, D.C.	\$0	Statutory	1,090	1,117	27	2%
Property	\$0	Asset value	1,713	1,800	87	5%
Special Contingency [*]	\$0	\$5 million	NA	4,487	NA	NA
Travel Accident [*]	\$0	\$250,000	NA	27,243	NA	NA
Total Premiums – Option 1	-	-	1,129,546	1,152,666	23,120	2.0%
Total Premiums – Option 2	-	-	1,129,546	1,240,021	110,475	9.8%

[■] Premium costs for two layers of General Liability, Fiduciary and Employee Benefits Liability, and Public Officials Directors and Officers Liability coverage.

^{*} Three-year policies last purchased July 2013. Premium costs were \$4,489 for Special Contingency, and \$27,586 for Travel Accident coverage.