



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

5/8/2018 Board Meeting

9-2

Subject

Renewal Status of Metropolitan's Property and Casualty Insurance Program

Executive Summary

Pursuant to Metropolitan's Administrative Code, this letter reviews the current status of Metropolitan's insurance coverages and anticipated changes for fiscal year 2018/19. The premium estimates which follow are expected costs, but not actual quotes, at this writing. These expected costs are derived from Metropolitan's broker's experience with our current insurance carriers, other insurers that may be willing to quote our program, and because of the condition of the current marketplace overall. At this writing, the estimates can be considered "indications" received by the broker in which there is a fairly high confidence that these figures will not be exceeded. Actual binding quotes will be received once the carriers have completed their review of Metropolitan's underwriting and risk profile information. In June, staff will present a board letter to request authority to purchase insurance based on the quoted premiums for the various lines of coverage.

Description

The existing Casualty and Property Insurance Program consists of the lines of insurance and coverage amounts listed below. Coverages expire June 30, 2018, excluding Special Contingency and Travel Accident, which will expire June 30, 2019.

1. \$25 million Aircraft Liability and 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 (D&O) 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. Stated property value up to \$25 million Property Damage coverage limit

Metropolitan's property and casualty excess and specialty insurance renewal cost is expected to increase slightly over fiscal year 2017/18. For the policies up for renewal, we expect premium increases of five to seven percent, varying by coverage. Premium increases for this year are attributed to continuing trends of higher medical costs impacting workers' compensation coverage, uncertainty over future medical cost increases, mild inflation, and

continued insurance industry investment income underperformance due to low interest rates, and falling bond market prices.

Attachment 1 compares the current coverages and premiums to those anticipated for fiscal year 2018/19. Premiums for the two layers of excess General Liability make up the largest portion of Metropolitan's casualty insurance budget. We expect a five percent premium increase from an aggregate amount of \$661,492 for 2017/18, to \$694,567 for the coming year. The excess fiduciary policy premiums are anticipated to increase by about five percent from \$45,604 to \$47,884. The excess D&O policies are projected to cost \$263,193, up from \$250,660 in 2017/18. Premiums for excess workers' compensation, and the first dollar coverage policy for Washington, D.C. employees, are expected to rise up to seven percent from a combined \$107,442 in the current year, to about \$115,000 for fiscal year 2018/19. From fiscal years 2002/03 to 2005/06, the self-insured retention for workers' compensation coverage was incrementally raised from \$1 million to \$5 million in response to terror-risk-related premium spikes in that line of coverage. The rationale to increase the self-insured retention was that the premium saved over a ten-year period would offset the financial risk of a "once in a decade" claim that would exceed the self-insurance coverage in that particular year. That analysis was based on calculations derived from the annual actuarial study. Metropolitan's risk exposure has remained stable since that review.

Because premiums for this line of coverage stabilized and then later decreased, Metropolitan maintained the self-insured retention of \$5 million, but raised the coverage limit from \$25 million to \$50 million in fiscal year 2010/11. In 2015/16, Metropolitan was able to obtain excess workers' compensation coverage with statutory limits over the \$5 million retention without a price increase. As premiums are expected to be slightly to moderately higher than last year, at this time staff anticipates maintaining the same self-insured retention and coverage limit. Over the last five years, excess workers' compensation premiums have remained fairly stable with increases due mostly to increasing medical industry costs. Beginning in 2010/11, Metropolitan purchased a separate "first dollar" policy for the Washington, D.C. employees. That first dollar policy cost \$1,155 last year, and is included in Metropolitan's total premium figure for workers' compensation coverage.

For all coverages, staff continues to investigate the cost-benefit of various options to maximize coverage values without significantly increasing premium costs, and other options to reduce premium costs without increasing Metropolitan's risk exposure. Staff also reviews and analyzes the suitability of the retention levels and coverage limits along with input from actuaries, and comparisons to other organizations. As long as premium costs and Metropolitan's risk exposures remain stable, the actuarial recommendations for retention and excess coverage levels remain in place. Staff also reviews and evaluates the viability of obtaining other lines of coverage such as fire, flood, and earthquake coverage on all or selected Metropolitan buildings. In past years, Metropolitan has not purchased these coverages because it has not been financially favorable, and because Metropolitan can raise funds if repairs are required.

Premium costs for other excess and specialty policies will vary by line of coverage, but are expected to have mild increases due mostly to inflation and unusually weak insurance industry investment performance. The Aircraft Liability and Hull Policy premium is expected to increase by up to five percent from \$41,501 paid in 2017/18, to approximately \$43,576. Metropolitan is also exploring the market for options to insure unmanned aerial vehicles or drones as part of its aircraft liability coverage. Metropolitan's Crime policy premium is also anticipated to rise by approximately five percent from \$11,908 to \$12,503.

Metropolitan also maintains a property damage policy due to fire damage that occurred near the Diemer Facility in the fall of 2009. This policy was originally purchased in order to obtain reimbursement of over \$500,000 from the Federal Emergency Management Agency for damage repair. Last year, the premium was \$1,730; and is expected to rise to approximately \$1,817 for 2018/19. The Travel Accident and Special Contingency three-year policies were last purchased in July of 2016, and will not be up for renewal again until 2019. In 2016, they cost \$23,157 and \$4,489, respectively.

To complete the insurance renewal for fiscal year 2018/19, with similar limits and retentions, staff anticipates renewal premium costs of about \$1.179 million compared with approximately \$1.12 million for fiscal year 2017/18.

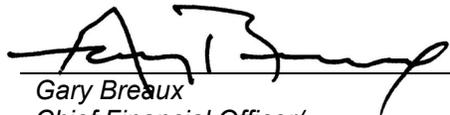
Policy

Metropolitan Water District Administrative Code Section 6413: Insurance Program

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

Fiscal Impact

The total premium costs are anticipated to increase from \$1.12 million to about \$1.179 million for fiscal year 2018/19.



Gary Breaux
Chief Financial Officer/
Assistant General Manager

4/26/2018

Date



Jeffrey Kightlinger
General Manager

4/26/2018

Date

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

Ref# cfo12655011

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

Insurance Policy Type	Self-Insured Retention (SIR)	Coverage Limits	2017/18 Insurance Premiums	2018/19 Estimated Premium Cost	2018/19 Estimated Insurance Premium Cost Change	2018/19 Estimated Insurance Premium % Change
Excess General Liability [■]	\$25 million	\$75 million	661,491	694,567	33,076	5%
Fiduciary and Employee Benefits Liability [■]	\$25 million	\$60 million	45,604	47,884	2,280	5%
Public Officials Directors and Officers Liability [■]	\$25 million	\$65 million	250,659	263,193	12,534	5%
Crime	\$150,000	\$5 million	11,908	12,503	595	5%
Aircraft Liability and Hull	\$1,000	\$25 million	41,501	43,576	2,075	5%
Excess Workers' Compensation, CA	\$5 million	Statutory	106,287	113,760	7,473	7%
Excess Workers' Compensation, D.C.	\$0	Statutory	1,155	1,240	85	7%
Property	\$0	Asset value	1,730	1,817	87	5%
Special Contingency [*]	\$0	\$5 million	NA	NA	NA	NA
Travel Accident [*]	\$0	\$250,000	NA	NA	NA	NA
Total Premiums	NA	NA	1,120,335	1,178,540	58,205	5%

[■] 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 2016, Special Contingency \$4,489 and Travel Accident \$23,157.