- **Board of Directors**
  Finance and Insurance

6/12/2018 Board Meeting

7-1

Subject

Adopt CEQA determination and approve up to $1.176 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, which, except for the special contingency and travel accident coverages, expire on June 30, 2018, in the amounts listed below:

1. $75 million general liability coverage in excess of a $25 million self-insured retention;
2. $60 million fiduciary and employee benefits liability coverage in excess of a $25 million self-insured retention;
3. $65 million public officials, directors and officers liability coverage in excess of a $25 million self-insured retention;
4. $5 million crime coverage for exposures such as fraud, theft, faithful performance, and employee dishonesty in excess of a $150,000 deductible;
5. $25 million aircraft liability coverage; aircraft hull coverage up to the planes' assessed values;
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. Property damage coverage up to the stated property value, with a $25 million policy limit;
8. $5 million special contingency coverage; and
9. $250,000 travel accident coverage.

If Metropolitan maintains the same coverage limits and retentions, the Property and Casualty Insurance Policy premiums for fiscal year 2018/19, will increase by about 5 percent from about $1.12 million for the current fiscal year, to approximately $1.176 million. The modest premium increase is a result of insurance market fluctuations, continuing weak insurance 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 2018/19.

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 market changes that create opportunities to increase coverage limits and decrease premiums or self-insured retention levels. This process is completed with the services of actuarial consultants, Metropolitan's insurance broker, staff review, 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 workers' compensation self-insured retention and excess coverage limits than for the other coverages during the last several years due to global 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. Premium costs for these coverages will rise slightly for fiscal year 2018/19. The general liability premiums will increase by about two percent, from $661,491 to $672,550. Premiums for the D&O policies will increase by nearly 16 percent from $250,659 last year, to $289,683 for fiscal year 2018/19. The excess D&O insurer is expected to declare a continuity credit (a dividend or rebate for good claim experience, and for remaining with the insurer), which would lower the total cost. For fiscal year 2017/18, the continuity credit amount reduced the policy cost by $39,826, and a similar credit, if awarded, will reduce the cost to about $240,000. The fiduciary liability policies will remain unchanged 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 which causes multiple injuries due to, for instance, 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 2000's that resulted from the 9/11 terrorist attacks and other global events, Metropolitan incrementally 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.

In 2015, Metropolitan was able to take advantage of both increased coverage capacity and market rate declines, to obtain statutory excess coverage without incurring an increased premium cost over the previous year. A stable claims history and claims experience has also contributed to Metropolitan's enhancement of coverage without incurring premium increases. Metropolitan continues to have an excellent claims history, and its 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, was calculated at 0.80. For context, a score below the benchmark of 1.00 is a positive reading; a score above 1.00 is negative.

For fiscal year 2018/19, premium rates will increase slightly. Consequently, the total premium will increase modestly from $106,287, in fiscal year 2017/18, to $111,656, because Metropolitan's payroll increased slightly, and because medical costs in the United States continue to rise. The renewal cost for the Washington, D.C. employees will also increase slightly, from $1,155 to $1,284. 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 lowered $2.5 million retention level. The cost of that policy would be $250,900, an increase of over $144,600 compared with the $106,287 paid in the current year, and over $139,000 above the quoted premium to maintain the $5 million retention for fiscal year 2018/19. Based on the stable nature of Metropolitan's workers' compensation exposure, and claims history, it is not cost-effective to decrease the self-insured retention to this level and pay this higher premium. 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 for damage resulting from the 2009 fall season fires, Metropolitan maintains a property insurance policy which cost $1,730 last year. For fiscal year 2018/19, the premium will rise to $1,944.

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 2017/18, a policy covering Metropolitan's two planes and unmanned aerial vehicles cost $41,501. The renewal cost is unchanged for the upcoming year. 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 this policy will decrease from $11,908 to $10,957, for the coming year. The premium costs for the three-year special contingency and travel accident policies purchased during fiscal year 2016/17 were $4,489 and $23,157, respectively. Those policies will not be up for renewal until fiscal year 2019/2020.

The insurance renewal for fiscal year 2018/19, with similar limits and retentions, and maintaining the $5 million retention for the excess workers' compensation policy,, is expected to cost up to $1.176 million compared with the approximately $1.12 million expended in fiscal year 2017/18.

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

CEQA 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). Finally, where it can be seen with certainty that there is no possibility that the proposed actions may have a significant impact on the environment, those actions are not subject to CEQA pursuant to Section 15061(b)(3) of the State CEQA Guidelines.

The CEQA determination for Options #1 and #2 is: Determine that the proposed action is not defined as a project and is not subject to CEQA pursuant to Sections 15378(b)(2), 15378(b)(4), and 15061(b)(3) 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 $1.176 million to renew all the expiring excess liability and specialty insurance policies, and maintain the same retentions and coverage limits.

Fiscal Impact: The anticipated $1.176 million premium cost for fiscal year 2018/19 would result in an approximate $55,000 increase compared with the premium cost for fiscal year 2017/18. The $1.176 million cost is within the $1.3 million amount included in the current board-approved 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 $1.315 million to renew the expiring excess liability and specialty insurance policies, decrease the self-insured retention from $5 million to $2.5 million for the Excess Workers' Compensation policy with an increase of over $194,000 compared with fiscal year 2017/18, and maintain the same retentions and policy limits for all other coverages.

Fiscal Impact: The anticipated $1.315 million premium cost for fiscal year 2018/19 would result in an increase of over $194,000 compared with the premium cost for fiscal year 2017/18, and would exceed the $1.3 million amount included in the current board-approved budget.

Business Analysis: The lowered retention rate of $2.5 million would increase Metropolitan's financial position against the risk of catastrophic loss, at an approximate additional cost of up to $145,000 over a policy retaining the $5 million retention level. Based on the stable nature of Metropolitan's workers' compensation exposure, and claims history, the higher premium is not cost-effective for Metropolitan.

Staff Recommendation

Option #1

5/29/2018

Gary Breaux *Date*
Chief Financial Officer/
Assistant General Manager

5/29/2018

Jeffrey Kightlinger *Date*
General Manager

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

Ref# cfo12658869

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 Quoted Premium Cost	2018/19 Quoted Insurance Premium Cost Change	2018/19 Quoted Insurance Premium % Change
Excess General Liability ■	$25 million	$75 million	661,491	672,550	11,059	2%
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	250,659	289,683	39,024	16%
Crime	$150,000	$5 million	11,908	10,957	(951)	(8%)
Aircraft Liability and Hull	$1,000	$25 million	41,501	41,501	0	0%
Option 1 - Excess Workers' Compensation, CA	$5 million	Statutory	106,287	111,656	5,369	5%
Option 2 - Excess Workers' Compensation, CA	$2.5 million	Statutory	NA	250,900	144,613	136%
Excess Workers' Compensation, D.C.	$0	Statutory	1,155	1,284	129	11%
Property	$0	Asset value	1,730	1,944	214	12%
Special Contingency *	$0	$5 million	NA	NA	NA	NA
Travel Accident *	$0	$250,000	NA	NA	NA	NA
Total Premiums – Option 1	NA	NA	**1,120,335**	**1,175,179**	**54,844**	**5%**
Total Premiums – Option 2	NA	NA	NA	**1,314,423**	**194,088**	**17%**

■ 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.