



- Board of Directors  
*Finance and Insurance Committee*

5/14/2019 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 charges for fiscal year (FY) 2019/20. 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.

## Details

The existing Casualty and Property Insurance Program consists of the lines of insurance and coverage amounts listed below. Coverages 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 by approximately 12% over FY 2018/19. This cost increase includes an estimated ten percent premium increase for the policies renewed last year, and the cost of renewing the three-year duration Travel Accident and Special Contingency Policies, last renewed in 2016. The anticipated premium increases are due to the insurance market pricing in consecutive years of catastrophic losses due to wildfires and hurricanes. In addition, an increase in law

enforcement and road design liability exposure for public entities is also contributing to higher premium costs. Pressure continues on Workers' Compensation premiums due to higher medical costs and uncertainty over future medical cost trends.

**Attachment 1** compares the current coverages and premiums to those anticipated for FY 2019/20. Premiums for the two layers of excess General Liability make up the largest portion of Metropolitan's casualty insurance budget. We expect a ten percent premium increase from an aggregate amount of \$658,119 for FY 2018/19 to about \$724,000 for the coming year. The excess fiduciary policy premiums are anticipated to increase by about five percent from \$45,604 to \$47,900. The excess D&O policies are projected to cost \$272,400, up from \$247,603 in FY 2018/19. Premiums for excess workers' compensation, and the first dollar coverage policy for Washington, D.C., employees, are expected to rise up to ten percent from a combined \$112,940 in the current fiscal year to about \$124,200 for FY 2019/20. 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 premiums 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 FY 2010/11. In FY 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 FY 2010/11, Metropolitan purchased a separate "first dollar" policy for the Washington, D.C., employees. That first dollar policy cost \$1,284 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 FY 2018/19, to approximately \$43,600. Metropolitan's Crime policy premium is also anticipated to rise by approximately twelve percent from \$10,957 to approximately \$12,500.

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 \$1,944; and due to the wildfire-related losses weighing on the insurance market, it is expected to rise to approximately \$2,200 for FY 2019/20. The Travel Accident and Special Contingency three-year policies were last purchased in July of 2016, and are now up for renewal. In 2016, they cost \$23,157 and \$4,489, respectively, and we are anticipating costs of approximately \$25,000, and \$4,900 for those coverages.

To complete the insurance renewal for FY 2019/20, with similar limits and retentions, staff anticipates renewal premium costs of about \$1.26 million compared with approximately \$1.12 million for FY 2018/19.

**Policy**

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Metropolitan Water District Administrative Code Section 6413: Insurance Program

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

**Fiscal Impact**

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The total premium costs are anticipated to increase from \$1.12 million to approximately \$1.26 million for FY 2019/20.

  
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June M. Skillman  
Interim Chief Financial Officer/  
Assistant General Manager  
4/25/2019  
Date

  
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Jeffrey Nightlinger  
General Manager  
4/26/2019  
Date

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

Ref# cfo12665477

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

<b>Insurance Policy Type</b>	<b>Self-Insured Retention (SIR)</b>	<b>Coverage Limits</b>	<b>2018/19 Insurance Premiums</b>	<b>2019/20 Estimated Premium Cost</b>	<b>2019/20 Estimated Insurance Premium Cost Change</b>	<b>2019/20 Estimated Insurance Premium % Change</b>
Excess General Liability <sup>■</sup>	\$25 million	\$75 million	658,119	724,000	65,881	10%
Fiduciary and Employee Benefits Liability <sup>■</sup>	\$25 million	\$60 million	45,604	47,900	2,296	5%
Public Officials Directors and Officers Liability <sup>■</sup>	\$25 million	\$65 million	247,603	272,400	24,797	10%
Crime	\$150,000	\$5 million	10,957	12,500	1,543	12%
Aircraft Liability and Hull	\$1,000	\$25 million	41,501	43,600	2,099	5%
Excess Workers' Compensation, CA	\$5 million	Statutory	111,656	122,800	11,144	10%
Excess Workers' Compensation, D.C.	\$0	Statutory	1,284	1,400	128	10%
Property	\$0	Asset value	1,944	2,200	256	10%
Special Contingency <sup>*</sup>	\$0	\$5 million	NA	4,900	4,900	NA
Travel Accident <sup>*</sup>	\$0	\$250,000	NA	25,000	25,000	NA
<b>Total Premiums</b>	NA	NA	<b>1,118,668</b>	<b>1,256,700</b>	<b>138,032</b>	<b>12%</b>

<sup>■</sup> Premium costs for two layers of General Liability, Fiduciary and Employee Benefits Liability, and Public Officials Directors and Officers Liability coverage.

<sup>\*</sup> Three-year policies last purchased July 2016. Premium costs were \$4,489 for Special Contingency and \$23,157 for Travel Accident.