



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

6/8/2021 Board Meeting

7-1

Subject

Approve up to \$1.594 million to purchase insurance coverage for Metropolitan's Property and Casualty Insurance Program for fiscal year 2021/22; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

The Property and Casualty Insurance Policy premiums for fiscal year (FY) 2021/22 will increase by \$285,200, or approximately 21.8 percent from about \$1.309 million for the current fiscal year, to approximately \$1.594 million if Metropolitan maintains the same coverage limits and retentions. The significant cost increase is the result of the insurance market pricing in a confluence of historic catastrophic events and conditions including the 2020 wildfire season, catastrophic storm losses, and the economic fallout from the COVID-19 pandemic. In addition, there has been an escalation of more frequent and expensive liability settlements against municipalities due in part to an increase in social and political unrest. These events have occurred against a backdrop of historically low investment yields and a continuing medical cost trend increase, which creates additional pricing pressure.

The following insurance coverages within the Property and Casualty Insurance Program will be expiring on June 30, 2021:

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 officer's 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; \$10 million Unmanned Aerial Vehicle (UAV) liability coverage; and aircraft hull coverage up to the planes' assessed values.
6. Statutory workers' compensation, and \$1 million employer's liability coverage, in excess of a \$5 million self-insured retention; and statutory coverage for Washington, D.C. employees.
7. Property damage coverage up to the stated property value, with a \$25 million policy limit.

Attachment 1 compares the current coverage and premium costs to those proposed for FY 2021/22.

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. Because of this year's expected dramatic premium cost increases for excess general liability coverage, we obtained a premium quote for reduced policy

limits for the second policy layer of our excess general liability coverage. For FY 2021/22, the base premium is \$277,749, or \$6,943 per million dollars of coverage, for the \$40 million policy limits that we usually carry excess of the \$25 million self-insured retention, and **\$35 million first layer excess general liability policy**. Reducing the policy limits from **\$40 million to \$25 million for that same second layer of excess insurance** will reduce the base premium to \$232,500, or \$9,300 per million dollars of coverage. This option would save \$45,249, or 16.3 percent of the cost of the \$40 million limits policy. However, that savings does not justify losing 40 percent of the coverage from \$40 million to \$25 million. On a million dollars of coverage basis, it is 33.4 percent more expense than that of the current \$40 million limit policy. Despite the lower total cost, from the perspective of both protecting Metropolitan, and the value received for funds expended, we do not recommend this policy limit reduction.

In addition to the usual coverage review, staff may investigate other coverage options such as cyber liability and earthquake insurance, which we have been evaluating over the last couple of years. Due to dramatic price increases for existing coverages, operational activities to enhance cyber defenses, and the continuation of the Metropolitan Headquarters Building earthquake retrofit project, we will delay pursuit of those coverages' options until the upcoming year. While all coverage limits and retentions are reviewed to maintain appropriate protection at cost-effective rates, historically there have been more changes to Metropolitan's self-insured retention and excess coverage limits for the workers' compensation policies than the other coverages during the last several years due to global events and medical cost trends. For the coming year, there were no viable options to make changes in the existing coverage portfolio. 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 public officials, directors, and officer's liability (D&O) policies provide catastrophic coverage for claims exceeding Metropolitan's \$25 million self-insured retention, and make up the largest portion of Metropolitan's casualty and specialty insurance premium budget. The projected cost of these coverages in the aggregate will increase by about 24.4 percent from \$1,104,469 to \$1,373,948 for FY 2021/22. Within that aggregate, the excess general liability premiums will increase by about 28 percent, from \$739,253 to \$944,765. The quotes this year do not yet include the disclosure of the pending continuity credit (a dividend or rebate for good claims experience and remaining with the insurer), which last year lowered the cost of the excess general liability by just under \$20,000. The premium cost for the two layers of D&O coverage in FY 2020/21 was \$278,486, but the total premium cost was lowered from over \$312,000 by a continuity credit of \$33,710. For FY 2021/22, the projected premium cost without the undisclosed pending continuity credit is estimated to be \$337,200, an increase of about 22 percent. Assuming the continuity credit is similar to that obtained last fiscal year, the two layers of D&O premiums will increase by about 9 percent.

Fiduciary Liability – In FY 2019/20, Metropolitan added coverage to include the deferred compensation program to its existing fiduciary coverage for the first \$35 million layer of coverage. Metropolitan also carries a second layer of excess coverage with \$40 million in limits. For FY 2020/21, the premium cost for the two layers of coverage was \$86,730. For FY 2021/22, the estimated premium cost will increase by about 6.1 percent to approximately \$92,000.

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, for example, an event such as multiple injuries occurring at the Metropolitan Headquarters Building 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 that resulted from the 9/11 terrorist attacks and other global events, Metropolitan incrementally increased the self-insured retention to its current level of \$5 million. Since FY 2011/12, premium costs have leveled, and occasionally 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 again able to take advantage of coverage capacity and market rate changes 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 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 0.84. For context, a score below the benchmark of 1.00 trends positive; a score above 1.00 trends more negative. While referenced here to reflect the claims history, the “Ex Mod” is not a weighted factor in obtaining excess workers’ compensation coverage and is only a factor in pricing first dollar coverage.

The total premium costs for FY 2021/22 for the excess workers’ compensation policy, and the first dollar policy for Washington D.C. employees will increase by about 6.6 percent, from \$116,073 in FY 2020/21 to \$123,721. Within that total, the premium for the first dollar policy for Washington, D.C. employees will decrease slightly, from \$1,259 to \$1,191.

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 damage insurance policy, which cost \$2,953 last year. For FY 2021/22, the premium will increase by 39 percent, to about \$4,105. Though a small dollar amount, the projected large percentage increase is due to the past year’s historic catastrophic wildfire season, and the continuing exposure going forward.

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 policies provide \$25 million aircraft liability, hull coverage up to the assessed value of the planes, and UAV liability coverage up to \$10 million. For FY 2020/21, policies covering Metropolitan’s two planes and eight UAVs cost \$75,132. This year, the premiums will increase by 8.1 percent to \$81,219. 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 to obtain this policy will increase from \$9,980 to \$10,816 for the coming year. Metropolitan also carries three-year duration special contingency and travel accident policies purchased in FY 2019/20. The costs were \$4,269 and \$27,423, respectively. Those policies are not up for renewal until FY 2022/23.

The insurance renewal for FY 2021/22, with similar limits and retentions, is expected to cost up to \$1.594 million, without inclusion of the pending continuity credits, up from approximately \$1.309 million expended in FY 2020/21.

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

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

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.

CEQA determination for Option #2:

None required

Board Options

Option #1

Approve up to \$1.594 million to purchase insurance coverage for Metropolitan's Property and Casualty Insurance Program to renew or replace all the expiring excess liability and specialty insurance policies for fiscal year 2021/22.

Fiscal Impact: The anticipated \$1.594 million premium cost for FY 2021/22 would result in an approximate \$285,200 increase compared with the \$1.309 million premium cost for FY 2020/21. The \$1.594 million cost exceeds the \$1.45 million amount included in the current board-approved budget by \$144,000 but if approved will be funded within the FY 2021/22 board-approved budget.

Business Analysis: Protects Metropolitan's financial position against the risk of catastrophic loss.

Option #2

Approve up to \$1.549 million to purchase insurance coverage for Metropolitan's Property and Casualty Insurance Program to renew or replace all the expiring excess liability and specialty insurance policies but reduce the excess general liability coverage by \$15 million.

Fiscal Impact: The anticipated \$1.549 million premium cost for FY 2021/22 would result in an approximate \$240,000 increase compared with the \$1.309 million premium cost for FY 2020/21. The \$1.549 million cost exceeds the \$1.45 million amount included in the current board-approved budget.

Business Analysis: Protects Metropolitan's financial position against the risk of catastrophic loss but with a reduced coverage limit.

Staff Recommendation

Option #1



Katano Kasaine
Assistant General Manager/
Chief Financial Officer

5/26/2021
Date



Jeffrey Kightlinger
General Manager

5/27/2021
Date

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

Ref# cfo12677987

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

Insurance Policy Type	Self-Insured Retention (SIR)	Excess Coverage Limits	2020/21 Actual Insurance Premiums	2021/22 Quoted and Estimated Premium Cost	2021/22 Quoted and Estimated Insurance Premium Cost Change	2021/22 Quoted and Estimated Insurance Premium % Change
Excess General Liability ■ OPTION 1	\$25 million	\$75 million	739,253	944,765	205,512	28%
Excess General Liability ■ OPTION 2	\$25 million	\$60 million◊	NA	899,516	NA	NA
Fiduciary and Employee Benefits Liability ■‡	\$25 million	\$60 million	86,730	91,996	5,266	6%
Public Officials Directors and Officers Liability ■‡	\$25 million	\$65 million	278,486	337,187	58,701	21%
Crime	\$150,000	\$5 million	9,980	10,816	836	8%
Aircraft Liability and Hull	\$1,000	\$25 million	75,132	81,219	6,087	8%
Excess Workers' Compensation, CA	\$5 million	Statutory	114,814	122,530	7,716	7%
Excess Workers' Compensation, D.C.	\$0	Statutory	1,259	1,191	(68)	(5%)
Property	\$0	Asset value	2,953	4,105	1,152	39%
Special Contingency •	\$0	\$5 million	NA	NA	NA	NA
Travel Accident •	\$0	\$250,000	NA	NA	NA	NA
Total Premiums – OPTION 1			1,308,608	1,593,808	285,200	21.8%
Total Premiums – OPTION 2			1,308,608	1,548,599	239,951	18.3%

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

‡ Estimated cost change.

◊ Reduce Excess General Liability by \$15 million.

• Three-year policies last purchased July 2019.