THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Board Action

- **Board of Directors**
  Finance and Asset Management Committee

6/11/2024 Board Meeting

7-4

Subject

Approve up to $2.257 million to purchase insurance coverage for Metropolitan's Property and Casualty Insurance Program for fiscal year 2024/25; 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) 2024/25 will increase by up to $194,000 or approximately 10.6 percent, from about $1.838 million for the current fiscal year, to approximately $2.032 million, if Metropolitan maintains the same coverage limits and retentions. To accommodate an additional $225,000, the estimated premium cost to acquire cyber liability coverage, the total cost is projected to be $2.257 million, an increase of about 22.8 percent. The cost increase to renew coverages results from the insurance market pricing in a confluence of conditions and trends, including catastrophic storm and wildfire losses, continued higher for longer post-pandemic inflation rates, and fall out from global military conflicts. In addition, a trend of more frequent and expensive liability settlements against municipalities due in part to rising social and political unrest continues to pressure the general liability market. Finally, rising medical costs contributes to rising settlement costs and higher premiums across multiple lines of coverage.

The following insurance coverages within the Property and Casualty Insurance Program will be expiring on June 30, 2024:

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 2024/25

Proposed Action(s)/Recommendation(s) and Options

Staff Recommendation: Option #2

Option #1

Approve up to $2.032 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 and maintain the $25 million self-insured retention for general liability coverage.

Fiscal Impact: The anticipated $2.032 million premium cost for FY 2024/25 would result in an approximate $194,000 cost increase compared with the $1.838 million premium cost for FY 2023/24. The $2.032 million is included in the current board-approved budget.

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

Option #2

Approve up to $2.257 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 and maintain the $25 million self-insured retention for FY 2024/25, and include up to $225,000 to obtain cyber liability coverage.

Fiscal Impact: The anticipated $2.257 million premium cost for FY 2024/25 would result in an approximate $419,000 increase compared with the $1.838 million premium cost for FY 2023/24. The $2.257 million cost is within the current board-approved Office of the CFO Group budget.

Business Analysis: Cost increase of a projected $225,000 compared with Option #1 protects Metropolitan's financial position against the risk of catastrophic loss and expands the insurance portfolio to add cyber liability coverage.

Alternatives Considered

Reviewed both higher and lower self-insured retentions for Excess General Liability coverages and weighed the benefits of adding cyber liability coverage.

Applicable 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

Related Board Action(s)/Future Action(s)

None

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it will not result in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. (State CEQA Guidelines Section 15378(a)). In addition, the proposed action is not defined as a project under CEQA because it involves organizational, maintenance, or administrative activities; personnel-related actions; and/or general policy and procedure making that will not result in direct or indirect physical changes in the environment. (Public Resources Code Section 21065; State CEQA Guidelines Section 15378(b)(2) and (5)). Finally, the proposed action is not defined as a project under CEQA because it involves the creation of government funding mechanisms or 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. (State CEQA Guidelines Section 15378(b)(4)).

CEQA determination for Option #2:

The proposed action is not defined as a project under CEQA because it will not result in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. (State CEQA Guidelines Section 15378(a)). In addition, the proposed action is not defined as a project under CEQA because it involves organizational, maintenance, or administrative activities; personnel-related actions; and/or general policy and procedure making that will not result in direct or indirect physical changes in the environment. (Public Resources Code Section 21065; State CEQA Guidelines Section 15378(b)(2) and (5)). Finally, the proposed action is not defined as a project under CEQA because it involves the creation of government funding mechanisms or 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. (State CEQA Guidelines Section 15378(b)(4)).

Details and Background

Background

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. To limit the expected premium cost increases for excess general liability coverage (catastrophic coverage for claims exceeding Metropolitan's $25 million self-insured retention), staff requests premium quotes at various retention levels. Last year, Metropolitan obtained additional premium quotes for the first policy layer of this coverage with self-insured retentions of **$35 million and $50 million, versus our current 25 million retention level.** The cost savings were minimal compared with the risk exposure of adding $10 million or $25 million in risk exposure.

Consequently, the Board Committee did not support the option of adding that risk for a small premium cost savings. For this coming fiscal year, we again requested quotes above the $25 million Self-insured retention (SIR), and we were advised that there would be no premium savings for increasing the retention level. Consequently, no quotes were required. Staff also received a premium indication for coverage at a lower ($15 million) SIR. The premium for that policy was estimated to range in cost from $2.5 million to $2.8 million versus the $825,440 for the coverage with a $25 million SIR purchased in FY 2023/24 with the carrier (AEGIS). Based on Metropolitan's ability to maintain the $25 million SIR, the coverage option with the lower retention level is not cost-effective. Because there are no premium savings to increasing the retention level and lowering the retention below the current $25 million would create a significant cost increase, we believe that the current retention level remains suitable and cost-effective for Metropolitan's risk profile.

In addition to the usual coverage review such as that described above, 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 notable price increases for existing coverages, the operational investment and activities to enhance cyber defenses, and the continuation of the Metropolitan Headquarters Building earthquake retrofit project, it was not timely to pursue those coverage options in recent years. Because of the dramatic rise in cyber-attacks worldwide and the increasing threat, we have likewise upped our efforts to investigate initiating **cyber liability coverage** during the past few years. For the FY2022/23 renewal, we sought pricing of a cyber liability policy that included coverage for business interruption, data loss, system failure, cyber extortion and other features for up to a premium of $200,000. We are again attempting to secure a quote for this coverage and determine if the benefits are worth the expenditure, and based upon the market indication, the projection is $225,000.

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 two decades due to global events and medical cost trends. Because of the difficult insurance market where coverage has become less available and prices continue to rise, we are not recommending changes to the existing coverage portfolio retentions and limits. Each of the different lines of insurance coverage is described below.

General Liability – The two layers of excess general 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 level, make up the largest portion of Metropolitan's casualty and specialty insurance premium budget. The cost of these coverages in the aggregate is projected to increase by about 19.8 percent, from $1,180,313 in FY 2023/24 to a projected $1,414,290 in FY 2024/25. The quotes this year, including the continuity credit (a dividend or rebate for good aggregate claims experience, and remaining with the insurer), are the same as last year, which lowered the cost of the excess general liability by just under $27,000. Within the total general liability aggregate, the premium cost for the two layers of D&O coverage in FY 2023/24 was $323,318, after the initial cost of $346,075 was also reduced by a continuity credit of $26,007. For FY 2024/25, the premium cost is $350,812, without the inclusion of a continuity credit, an increase of 8.5 percent from the previous year.

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 2023/24, the premium cost for the two layers of coverage was $96,989. For FY 2024/25, the premium cost will remain unchanged.

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 have also contributed to Metropolitan's enhancement of coverage without increasing costs. Metropolitan typically has had 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. The score increased from .94 during FY 2022/23 to 1.28 for FY 2023/24. 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 the cost of obtaining excess workers' compensation coverage for Metropolitan.

The total premium costs for FY 2024/25 for the excess workers' compensation policy, and the first dollar policy for Washington D.C. employees will increase by about 4.5 percent, from $127,944 in FY 2023/24 to $133,701. Within that total amount, the premium for the first dollar policy for Washington, D.C. employees will increase slightly, from $1,167 to $1,198.

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 to cover the area damaged in that fire. The policy cost $7,350 in FY 2023/24, and will rise by as much as 22 percent to a projected amount of $9,000 for FY 2024/25. Though a small dollar amount, the projected large percentage increase is due to the past three years' historic catastrophic wildfire seasons, 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 2023/24, policies covering Metropolitan's two planes and eight UAVs cost $89,735. For FY 2024/25, the premium will increase by 29.6 percent to $116,295. 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 decrease slightly from $11,401 to $9,866 for the coming year. Metropolitan also carries three-year duration special contingency crime, and travel accident policies last purchased in FY 2022/23 for the amounts of $4,442 and $21,633, respectively. These are not up for renewal until FY 2025/26.

The projected total cost of the insurance renewal for FY 2024/25, with similar limits and retentions, without the inclusion of the expected continuity credits, will be $2,032,151, up from approximately $1,838,217 million expended in FY 2023/24.

If Metropolitan chooses the option to allow additional funds to enable purchasing cyber liability coverage once quotations are available, the total projected cost will be up to $2,257,151, up from $1,838,217 million expended in FY 2023/24.

Project Milestone

Insurance policies are bound (official decision to purchase) in June or once they become final and are paid immediately thereafter.

Katano Kasaine 6/6/2024

Katano Kasaine *Date*
Assistant General Manager/Chief Financial Officer

6/6/2024

Adel Hagekhalil *Date*
General Manager

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

Ref# cfo12701653

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

Insurance Policy Type	Self-Insured Retention (SIR)	Coverage Limits	2023/24 Insurance Premiums	2024/25 Quoted and Estimated Premium Cost	2024/25 Quoted and Estimated Premium Cost Change	2024/25 Quoted and Estimated Premium % Change
Excess General Liability [1]	$25 million	$75 million	1,180,313	1,314,290	233,977	20%
Fiduciary and Employee Benefits Liability [1]	$25 million	$60 million	96,989	96,989	0	0%
Public Officials Directors and Officers Liability [1]	$25 million	$65 million	323,075	350,812	27,494	9%
Crime	$150,000	$5 million	11,401	9,866	(1,535)	(14%)
Aircraft Liability and Hull	$7,500	$25 million	89,735	116,295	26,560	30%
Excess Workers' Compensation, CA	$5 million	Statutory	127,944	133,701	5,757	5%
Excess Workers' Compensation, D.C.	$0	Statutory	1,167	1,198	31	3%
Property [2]	$0	Asset value	7,350	9,000	1,650	22%
Cyber Liability [2 & 4]	$500,000	$5 million	NA	225,000	225,000	100%
Special Contingency [3]	$0	$5 million	4,442	NA	NA	NA
Travel Accident [3]	$0	$250,000	21,633	NA	NA	NA
Total Insurance Premiums – Option 1			**1,838,217**	**2,032,151**	**193,934**	**11%**
Total Insurance Premiums – Option 2 [4]			**1,838,217**	**2,257,151**	**418,934**	**23%**

[1] Premium costs for two layers of General Liability, Fiduciary and Employee Benefits Liability, and Public Officials Directors and Officers Liability.
[2] Premium for 2024/25 is a not to exceed estimate based upon market indications.
[3] Three-year duration policies last purchased July 2022, and are up for renewal FY 2025/26.
[4] Option to add Cyber Liability.