



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Board Information

● Board of Directors

Finance and Asset Management Committee

5/14/2024 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) 2024/25. The premium estimates that 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 the condition of the current marketplace overall. At this writing, we have reasonable confidence that the estimates or "indications" provided by the insurance carriers will not exceed the aggregate total estimated. Our broker will provide actual binding quotes once the insurance 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 those actual quoted premiums for the various lines of coverage.

Fiscal Impact

The total premium costs are anticipated to increase from \$1.838 million for FY 2023/24 to approximately \$2.093 million for FY 2024/25.

Applicable Policy

Metropolitan Water District Administrative Code Section 6413: Insurance Program Metropolitan Water District Administrative Code Section 9101: Risk Retention and Procurements of Insurance

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

This letter is in preparation for a June board action; a separate board letter will be presented to the Board to approve the purchase of the insurance coverage for FY 2024/25.

Details and Background

Background

The following list includes the Casualty and Property Insurance Program lines of insurance, with coverage amounts, which expire June 30, 2024.

- \$25 million aircraft liability coverage; \$10 million liability for Unmanned Aerial Vehicles, and aircraft hull coverage up to the planes' assessed values.
- \$5 million Crime coverage for exposures such as fraud, theft, faithful performance, and employee dishonesty in excess of a \$150,000 deductible.
- \$75 million General Liability coverage in excess of a \$25 million self-insured retention.

- \$60 million Fiduciary and Employee Benefits Liability coverage in excess of a \$25 million self-insured retention.
- \$65 million Public Officials, Directors, and Officers Liability (D&O) coverage in excess of a \$25 million self-insured retention.
- 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.
- 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 about 14 percent over FY 2023/24. The cost increase is due to a continuation of significant global trends and factors affecting the insurance market. These include lingering economic fallout from the global pandemic, increased frequency of climate change-induced mega-catastrophic weather events such as extreme storms and historic wildfires, and a continuation of significant social and political unrest. Though declining, continuing inflation resulting from national and international factors is putting additional upward price pressure on the insurance market. These events and conditions, in addition to pre-existing pricing pressure trends, are causing both higher insurance market pricing, and more restrictive policy terms and conditions. Metropolitan is somewhat well positioned by being significantly self-insured; consequently, the effect of price increases and policy restrictions are expected to be somewhat muted, but nonetheless will continue to be more noticeable than during the pre-pandemic era. The rate of cost increases for the coming year is expected to be similar to that experienced for FY 2023/24.

Attachment 1 compares the current coverages and premiums to those projected for FY 2024/25. These projections are pegged to the upper end of the expected price range. Premiums for the two layers of excess General Liability make up the largest portion of Metropolitan's casualty insurance budget. We expect up to a 15 percent premium increase from an aggregate amount of \$1,180,313 for FY 2023/24 to a projected \$1,357,360 for the coming year due to the factors discussed above and an anticipated wildfire surcharge for risks in California. The excess fiduciary policy premiums are anticipated to also rise by about 15 percent, from \$96,989, to an anticipated \$111,540. The excess D&O policies are projected to cost about \$362,100, up 12 percent from \$323,318 in FY 2023/24. Premiums for excess workers' compensation, and the first dollar coverage policy for Washington, D.C. employees, are expected to rise more mildly by up to 10 percent, from a combined \$129,111 in the current fiscal year to an estimated \$142,000 for FY 2024/25. To add context for this price trend, from FYs 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 mildly 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 and inflation. Beginning in FY 2010/11, Metropolitan purchased a separate "first dollar" policy for the Washington, D.C. employees. That first dollar policy cost \$1,296 last year and is included in Metropolitan's total premium figure for workers' compensation coverage.

For all coverages staff continues to explore the cost-benefit of various options to maximize coverage 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 continues to review and evaluate the viability of obtaining other lines of coverage such as fire, flood, cyber liability, and earthquake coverage as risks and needs change. In past years, Metropolitan has not purchased these coverages because it has not been financially favorable, compared with the risk exposure, and because Metropolitan can raise funds if repairs are required. Metropolitan did a deeper dive into cyber liability coverage and obtained board authority of up to \$100,000 to obtain a policy to provide expertise and logistics, and if necessary to finance some of that risk. The costs were still too high, and above the approved board authority amount, and consequently the policy was not purchased for FY 2022/23. Staff continues to seek cost effective options to insure a portion of the potential cyber liability exposure as an addition to Metropolitan's robust cyber liability defense.

Premium costs for other excess and specialty policies will vary by line of coverage but are expected to have varying cost increases due to inflationary pressures described earlier, and also due to increased claims payment trends globally in some lines of coverage. The Aircraft Liability and Hull Policy premium is expected to increase from \$89,735 paid in FY 2023/24 to an estimated \$99,000. Metropolitan's Crime policy premium is anticipated to rise by approximately five percent from \$11,401 to about \$12,000.

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 renewal cost \$7,350 due to continued wildfire-related losses in the western United States weighing on the insurance market and is expected to rise again by up to 25 percent, to an estimated \$9,200 for FY 2024/25.

Metropolitan also carries Travel Accident and Special Contingency three-year duration policies, last purchased in fiscal 2022/23, which are not up for renewal until July 2025. In 2022, the renewal premiums cost \$21,633 and \$4,442 respectively.



To complete the insurance renewal for FY 2024/25, with similar limits and retentions, staff anticipates renewal premium costs of about \$2.093 million compared with approximately \$1.838 million for FY 2023/24.

Timing and Urgency

This letter provides an update on the activities and estimated costs for the July 1, 2024 insurance renewal.

Project Milestone(s)

This is an ongoing annual process to renew or replace existing insurance coverages, or add or modify coverages to the portfolio as Metropolitan's needs and market conditions dictate.

 _____ Katano Kasaine Assistant General Manager/ Chief Financial Officer	4/25/2024 _____ Date
 _____ Adel Hagekhalil General Manager	4/29/2024 _____ Date

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

**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 Estimated Premium Cost	2024/25 Estimated Insurance Premium Cost Change	2024/25 Estimated Insurance Premium % Change
Excess General Liability [■]	\$25 million	\$75 million	1,180,313	1,357,360	177,047	15%
Fiduciary and Employee Benefits Liability [■]	\$25 million	\$60 million	96,989	111,540	14,551	15%
Public Officials Directors and Officers Liability [■]	\$25 million	\$65 million	323,318	362,100	38,782	12%
Crime	\$150,000	\$5 million	11,401	12,000	599	5%
Aircraft Liability and Hull	\$7,500	\$25 million	89,735	99,000	9,265	10%
Excess Workers' Compensation, CA	\$5 million	Statutory	127,944	140,740	12,796	10%
Excess Workers' Compensation, D.C.	\$0	Statutory	1,167	1,260	93	8%
Property	\$0	Asset value	7,350	9,200	1,850	25%
Special Contingency *	\$0	\$5 million	4,442	NA	NA	NA
Travel Accident *	\$0	\$250,000	21,633	NA	NA	NA
Total Premiums	NA	NA	1,838,217	2,093,200	254,983	14%

■ 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 2022. Premium costs were \$4,442 for Special Contingency and \$21,633 for Travel Accident.