THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Board Action

- **Board of Directors**
  Finance, Affordability, Asset Management, and Efficiency Committee

6/10/2025 Board Meeting

7-7

Subject

Approve up to $2.485 million to purchase insurance coverage for Metropolitan's Property and Casualty Insurance Program for Fiscal Year 2025/26; 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) 2025/26 will increase by up to $314,000 or approximately 14.5 percent from about $2.171 million for the current fiscal year, to approximately $2.485 million, if Metropolitan maintains the same coverage limits and retentions. The cost increase results from the insurance market pricing in a confluence of conditions and trends, including catastrophic storm and wildfire losses, persistent inflation, economic uncertainty, global instability, and surging liability claim costs experienced by government entities and corporations. Finally, rising medical costs are contributing 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, 2025:

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; $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.
8. Cyber liability with $5 million policy limits.
9. Special contingency crime coverage with $5 million in policy limits.
10. Travel accident coverage with a $250,000 policy limit.

Attachment 1 compares the current coverage and premium costs to those proposed for FY 2025/26.

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

Staff Recommendation: Option #1

Option #1

Approve up to $2.485 million to purchase insurance coverage for Metropolitan's Property and Casualty Insurance Program for Fiscal Year 2025/26.

Fiscal Impact: The anticipated $2.485 million premium cost for FY 2025/26 would result in an approximate $314,000 cost increase compared with the $2.171 million premium cost for FY 2024/25. The $2.485 million is included in the current board-approved budget.

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

Option #2

Do not approve up to $2.485 million to purchase insurance coverage for Metropolitan's Property and Casualty Insurance Program.

Fiscal Impact: Not approving the renewal for FY 2025/26 would result in an approximate savings of $2.171 million compared with the $2.171 million premium cost expended for FY 2024/25, and up to $2.485 million saved versus option one. Not approving the purchase of insurance leaves Metropolitan without excess coverage above the self-insured retentions for general liability and workers' compensation, and unprotected against catastrophic loss. Metropolitan would also be exposed to financial loss in all other categories of insurance currently covered.

Business Analysis: Option #2 does not protect Metropolitan's financial position against catastrophic loss, and therefore increases Metropolitan's exposure to liability loss, as well as adding exposure for first-party losses that have been previously insured.

Alternatives Considered

Reviewed both higher and lower self-insured retentions for Excess General Liability coverages, but neither is a viable option.

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)

Not applicable

California Environmental Quality Act (CEQA)

CEQA determination(s) for Option #1:

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)).

CEQA determination(s) for Option #2:

None required

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 attempt 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 requested premium quotes at various retention levels. For the FY2024/25 renewal, staff obtained additional premium indications 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 and did not justify the risk added. For the FY2025/26 renewal, there is no cost savings from raising the retention level to $35 million or $50 million because of the insurance market conditions and Metropolitan's already high level. Staff also reviewed a lower retention level of $15 million, but the indication of price to the lower retention level would increase the cost of the General Liability coverage by 300 percent. This is in line with what we would expect during a period of sharply rising premium rates for general liability, and is not a cost-effective option. Because there is no premium savings to gain from increasing the retention level, and since 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 this environment.

In addition to the usual coverage review, such as that described above, staff investigates other coverage options, such as earthquake insurance or property coverage for headquarters, which we have been evaluating over the last couple of years. Due to notable price increases for our existing coverages and Metropolitan's recent Headquarters Building earthquake retrofit project, it has not been timely to pursue earthquake coverage at this time. Because of the dramatic rise in cyber-attacks worldwide and the increasing threat, and because there was more market capacity and the market had softened for the coverage, Metropolitan was able to add cyber liability to the portfolio as part of the 2024/25 renewal.

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 overall 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 officers' liability (D&O) policies provide catastrophic coverage for claims exceeding Metropolitan's $25 million self-insured retention level, and 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 15 percent, from about $1,734,000 in FY 2024/25, to an estimated $1,994,000 for FY 2025/26. The estimates this year do not yet include the disclosure of the likely continuity credit (a dividend or rebate for good aggregate claims experience, and remaining with the insurer), which last year lowered the cost of the excess general liability by about $27,000. Within the total general liability aggregate, the premium for the two layers of D&O coverage in FY 2024/25 was lowered from about $350,000 to approximately $320,000 after the continuity credit of $30,200 was declared. For FY 2025/26, the projected premium cost, without inclusion of a likely continuity credit, is expected to be approximately $367,600, an increase of 15 percent. The possible inclusion of continuity credit would reduce that price increase.

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 2024/25, the premium cost for the two layers of coverage was $96,989. For FY 2025/26, the premium cost is anticipated to increase slightly by approximately 4.1 percent from FY 2024/25 to an estimated amount of $101,000.

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 skyrocketing 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 off, 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 again took advantage of market opportunities and was able to obtain statutory limit excess workers' compensation coverage. Metropolitan's good claims experience has also contributed to keeping the excess premium costs down.

The total premium costs for FY 2025/26 for the excess workers' compensation policy and the first dollar policy for Washington D.C. employees will increase by about 10.4 percent, from $134,899 in FY 2024/25 to $148,978. Within that total amount, the premium for the first dollar policy for Washington, D.C. employees will decrease slightly, from $1,198 to $1,179.

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 premium was $8,027 in FY 2024/25, and will rise by as much as 25 percent to an estimated $10,000 for FY 2025/26. Though a small dollar amount, the projected large percentage increase is due to the past five years' historic catastrophic wildfire seasons, and the continuing exposure of loss to property owners and insurers going forward.

Specialty Coverages – Metropolitan carries aviation coverage, which includes aircraft liability and hull coverage, and liability coverage for our UAV fleet. In addition, Metropolitan carries cyber liability, crime, travel accident, and special contingency crime policies to complete its insurance portfolio. The cyber liability policy includes protection against cyberattack-related risks such as business interruption, data loss, and system failure, to name a few. The premium cost will remain flat at $102,498 for FY2025/26. The aviation policy provides $25 million aircraft liability, hull coverage up to the assessed value of the planes, and UAV liability coverage up to $10 million. For FY 2024/25, policies covering Metropolitan's two planes and eight UAVs cost $86,126. For FY 2025/26, the premium will increase by 4.6 percent to $90,104. 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 remain at $8,245 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. The estimated renewal cost of the travel accident policy is expected to rise by approximately 15 percent to about $24,900. The estimated renewal cost for the special contingency crime premium is about $5,100.

The estimated total cost of the insurance renewal for FY 2025/26, with similar limits and retentions and without the inclusion of the expected continuity credits, is $2,485,000, up from about $2,171,000 million, an increase of $314,000 over FY 2024/25 if Metropolitan renews all expiring coverages without changes to the self-insured retention levels.

Project Milestones

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

6/2/2025

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

6/2/2025

Deven Upadhyay *Date*
General Manager

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

Ref# cfo12709199

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

Insurance Policy Type	Self-Insured Retention (SIR)	Coverage Limits	2024/25 Insurance Premiums	2025/26 Quoted and Estimated Premiums Cost	2025/26 Quoted and Estimated Premiums Cost Change	2025/26 Quoted and Estimated Premiums % Change
Excess General Liability [1]	$25 million	$75 million	1,414,290	1,626,500 *	212,210	15%
Fiduciary and Employee Benefits Liability [1]	$25 million	$60 million	96,989	101,000 *	4,011	4.1%
Public Officials Directors and Officers Liability [1]	$25 million	$65 million	319,677	367,600 *	47,923	15%
Crime	$150,000	$5 million	8,245	8,245	0	0%
Aviation	$7,500	$25 million	86,126	90,104	3,978	4.6%
Excess Workers' Compensation, CA	$5 million	Statutory	133,701	147,799	14,098	10.5%
Excess Workers' Compensation, D.C.	$0	Statutory	1,198	1,179	(19)	-1.6%
Property	$0	Asset value	8,027	10,000 *	1,973	24.6%
Cyber Liability	$500,000	$5 million	102,498	102,498	0	0%
Special Contingency Crime [2]	$0	$5 million	4,442	5,100 *	658	14.8%
Travel Accident [2]	$0	$250,000	21,633	24,900 *	3,267	15.1%
Total			**2,170,753**	**2,484,925**	**314,172**	**14.5%**

[1] Premium Quoted and Estimated costs for two layers of General Liability, Fiduciary and Employee Benefits Liability, and Public Officials Directors and Officers Liability.
[2] Three-year duration policies last purchased July 2022, and are up for renewal FY 2025/26.
* 2025/26 Estimated Premiums Cost.