



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

6/14/2022 Board Meeting

7-3

Subject

Approve up to \$1.954 million to purchase insurance coverage for Metropolitan's Property and Casualty Insurance Program for fiscal year 2022/23; 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) 2022/23 are projected to increase by \$209,524, or approximately 13.6 percent from about \$1.544 million for the current fiscal year, to approximately \$1.754 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 events and conditions, including the 2021 wildfire season, catastrophic storm losses, the continued economic fallout from the COVID-19 pandemic, and significant inflation. In addition, the trend of more frequent and expensive liability settlements against municipalities due in part to rising social and political unrest has continued. These events have been occurring with a backdrop of low insurance industry investment yields (though improving now) and with a continuing medical cost trend increase, creating additional pricing pressure.

The following insurance coverages within the Property and Casualty Insurance Program will be expiring on June 30, 2022:

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.
8. Travel Accident coverage with coverage limits up to \$5 million, and \$25,000 per claim
9. Special Contingency crime coverage with policy limits of \$5 million

Attachment 1 compares the current coverage and premium costs to those proposed for FY 2022/23

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 significant premium cost increases for excess general liability coverage (catastrophic coverage for claims exceeding Metropolitan's \$25 million self-insured retention), we obtained premium quotes for the two layers of excess general liability coverage equaling \$75 million in limits with self-insured retentions of **\$35 million and \$50 million, versus our current 25 million retention level** in an attempt to reduce overall costs. For FY 2022/23, the premium cost (without including taxes, fees, and the inclusion of terrorism coverage which Metropolitan elects to include in the policies) would be \$998,993. The option to purchase the same policies with a **\$35 million self-insured retention** would be \$995,131, a negligible savings of just under \$3,900 despite the added exposure of \$10 million, or 40 percent, in self-insured retention. The option to increase the retention to **\$50 million** would net a savings of \$152,808 versus the current retention level but is still not cost effective considering the 100 percent increased liability exposure resulting from doubling the self-insured retention from \$25 million to \$50 million. Both options, one very slightly and the second more materially economical, both significantly increase liability exposure. From the perspective of both protecting Metropolitan and obtaining value for funds expended, we cannot recommend either option.

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, operational 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** if there is a viable option available. We do not have the complete coverage detail yet but are looking for pricing of a cyber liability policy with \$5 million in coverage limits and a \$500,000 self-insured retention. Metropolitan would seek to obtain a policy that includes coverage for business interruption, data loss, system failure, cyber extortion, and other features. If this coverage is available, we anticipate the premium costs up to \$200,000 for FY 2022/23.

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 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, 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 13 percent, from \$1,323,775 in FY 2021/22 to \$1,495,587 for FY 2022/23. Within that aggregate, the two excess general liability premiums will increase by about 16.3 percent, from \$929,106 to \$1,080,529. The quotes 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 just over \$25,000. The premium cost for the two layers of D&O coverage in FY 2021/22 was \$303,821, after the initial cost of \$329,563 was also reduced by a continuity credit of \$25,742. For FY 2022/23, the projected premium cost, including a continuity credit of \$26,007, will be \$320,068, an increase of \$16,246, or about five 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 2021/22, the premium cost for the two layers of coverage was \$90,847. For FY 2022/23, the estimated premium cost will increase by about five percent to \$94,990.

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 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, was calculated at .84 for FY 2020/21. For FY 2021/22, the score increased to 1.33 as a result of two significant injuries and an increased number of stress claims. 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 for Metropolitan.

The total premium costs for FY 2022/23 for the excess workers' compensation policy, and the first dollar policy for Washington D.C. employees will decrease by about 1.6 percent, from \$123,721 in FY 2021/22 to \$121,727. Within that total, the premium for the first dollar policy for Washington, D.C. employees will increase slightly, from \$1,191 to \$1,296.

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 \$4,256 last year. For FY 2022/23, the premium will increase by about 22 percent to \$5,193. Though a small dollar amount, the projected large percentage increase is due to the past two 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 2021/22, policies covering Metropolitan's two planes and eight UAVs cost \$81,219. This year, the premiums will increase by 11.9 percent to \$90,910. 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 slightly from \$10,816 to \$10,901 for the coming year. Metropolitan also carries three-year duration, special contingency crime, and travel accident policies purchased in FY 2019/20. The cost of the special contingency crime policy will increase by about four percent from \$4,269 when last purchased to \$4,442 for the coming year. The travel accident policy premium cost will decrease by approximately 7.2 percent, from \$27,423 in FY 2019/20 to \$25,450 for FY 2022/23.

The total cost of the insurance renewal for FY 2022/23, with similar limits and retentions, is \$1,753,310 without the inclusion of the expected continuity credits, up from approximately \$1,543,786 million expended in FY 2021/22.

If Metropolitan chooses to also approve up to \$200,000 to acquire cyber liability coverage in addition to the renewal of all expiring coverages, the total cost for FY 2022/23 will be \$1,953,310.

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 (Public Resources Code Section 21065, State CEQA Guidelines Section 15378) because the proposed action will not cause either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment, and 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 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 (Section 15378(b)(4) of the State CEQA Guidelines).

CEQA determination for Option #2:

None required

Board Options

Option #1

Approve up to \$1.954 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 reserve funds to allow for the purchase of a \$5 million limit cyber liability policy with a cost up to \$200,000 if it becomes available.

Fiscal Impact: The anticipated \$1,954 million premium cost for FY 2022/23 would result in an approximate \$409,524 cost increase compared with the \$1.544 million premium cost for FY 2021/22. The \$1,954 million is included in the current board-approved budget.

Option #2

Approve up to \$1.754 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 FY 2022/23.

Fiscal Impact: The anticipated \$1,754 million premium cost for FY 2022/23 would result in an approximate \$209,524 increase compared with the \$1.544 million premium cost for FY 2021/22. The \$1.754 million cost is within the current board-approved Office of the CFO Group budget.

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

Staff Recommendation

Option #1



Katano Kasaine
Assistant General Manager/
Chief Financial Officer

6/6/2022

Date



Adel Hagekhalil
General Manager

6/7/2022

Date

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

Ref# cfo12680767

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

Insurance Policy Type	Self-Insured Retention (SIR)	Coverage Limits	2021/22 Insurance Premiums	2022/23 Quoted Premium Cost	2022/23 Quoted Premium Cost Change	2022/23 Quoted Premium % Change
Excess General Liability [■]	\$25 million	\$75 million	929,106	1,080,529	151,423	16.3
Fiduciary and Employee Benefits Liability [■]	\$25 million	\$60 million	90,847	94,990	4143	4.6
Public Officials Directors and Officers Liability [■]	\$25 million	\$65 million	303,821	320,068	16,246	5.3
Crime	\$150,000	\$5 million	10,816	10,901	85	.08
Aircraft Liability and Hull	\$1,000	\$25 million	81,219	90,010	8,791	10.8
Excess Workers' Compensation, CA	\$5 million	Statutory	122,530	120,431	(2,099)	(1.7)
Workers' Compensation, D.C.	\$0	Statutory	1,191	1,296	105	8.8
Property	\$0	Asset value	4,256	5,193	937	22
Special Contingency *	\$0	\$5 million	4,263	4,442	179	4.2
Travel Accident *	\$0	\$250,000	27,423	25,450	(1,973)	(7.2)
Total Premiums – Option 1 with Cyber Liability	NA	NA	1,543,786	1,953,310	409,524	26.5
Total Premiums - Option 2	NA	NA	1,543,786	1,753,310	209,524	13.6

■ 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 2019. Premium costs were \$4,263 for Special Contingency and \$27,423 for Travel Accident.