



June 22, 2020

**Attention: Administrative and Finance Committee**

**Purchase of Water Authority Business Insurance for Fiscal Year 2021. (Action)**

**Staff recommendation**

Authorize the General Manager to purchase property insurance from Swiss Reinsurance Company Ltd in the amount of \$208,429, liability insurance from Allied World Assurance Company – CalMutuals JPRIMA in the amount of \$337,053, and workers' compensation insurance from Zenith Insurance Company – CalMutuals JPRIMA in the amount of \$294,633, for a total amount of \$840,115.

**Alternatives**

1. Increase the deductible for property insurance from \$50,000 to \$75,000 and increase the deductible for liability insurance from \$75,000 to \$100,000. This would result in a reduction of \$19,895 in premiums. The total combined premium for all three lines of insurance would be reduced from \$840,115 to \$820,220.
2. Increase the deductible for property insurance from \$50,000 to \$100,000 and increase the deductible for liability insurance from \$75,000 to \$125,000. This would result in a reduction of \$31,090 in premiums. The total combined premium for all three lines of insurance would be reduced from \$840,115 to \$809,025.

**Fiscal impact**

Funds for the purchase of property, liability, and workers' compensation insurance for Fiscal Year 2021 are included in the Fiscal Years 2020 and 2021 Adopted Budget.

**Executive Summary**

- The Water Authority's total premium increased 0.74 percent in fiscal year 2021.
- Premiums for workers' compensation increased 5.17 percent, property increased 0.16 percent, and due to an overall reduction in coverage levels (see memo), liability decreased 2.50 percent.
- The overall premium amount is within the Administrative Services Department budget.

**Background**

The Water Authority purchases property, liability, and workers' compensation insurance coverage on an annual basis. In fiscal year 2020, property coverage was provided by SwissRe, while automobile physical damage coverage was provided by Travelers Insurance Company. Liability coverage was purchased from Allied World Assurance Company, and two layers of excess liability coverage by Great American Assurance Company and Berkley National Assurance Company. Since fiscal year 2018, the Water Authority has purchased workers' compensation insurance from the California Association of Mutual Water Companies Joint

Powers Risk and Insurance Management Authority (CalMutuals JPRIMA), a pooled insurance program.

### **Discussion**

Workers' compensation coverage is statutory in the State of California. This means that the coverage terms and conditions are fairly standard, with no material differences in coverage among the various providers. The premium for fiscal year 2021 increased 5.17 percent (\$14,475) when compared to fiscal year 2020 (from \$280,158 to \$294,633). The coverage provided by CalMutuals JPRIMA is underwritten by Zenith Insurance Company, which has provided workers' compensation coverage since 1937, and authorized in California since 1950. A.M. Best rates Zenith Insurance Company at A X (A=Excellent / X=\$500M to \$750M financial size).

The premium for property insurance coverage for fiscal year 2021 is virtually flat, increasing by 0.16 percent (\$343) from fiscal year 2020 (from \$208,086 to \$208,429). Property insurance rates continue to increase, particularly in California, as the State recovers from notable losses in recent years as a result of extensive damage from wildfires, and the Country as a whole recovers from major losses due to record-breaking hurricanes and flooding. However, by simplifying its coverage structure, the Water Authority was able to minimize the rate increase in fiscal year 2021 without a reduction in coverage. Coverage continues to be provided by SwissRe. A.M. Best rates SwissRe at A+ XV (A+ = Superior / XV = \$2B + financial size).

Total premiums for liability coverage in fiscal year 2021 decreased 2.50 percent (\$8,644) when compared to fiscal year 2020 (from \$345,697 to \$337,053). In recent years the Water Authority has purchased excess liability limits of \$46 million. This premium represents a decline in the Water Authority's total excess liability coverage limit to \$31 million, a result of dramatically increased minimum premiums for higher layers of excess liability insurance coverage, and an overall downturn in the liability insurance market. Staff believe that this is still an adequate excess liability limit as the Water Authority has an excellent loss history and does not have some of the higher risk operations of other public entities, such as public safety and transit. Notably, while inverse condemnation coverage continues to be available, it only covers up to \$21 million of excess liability. This reflects the fact that some insurers are no longer providing this coverage in California, while remaining carriers are doing so at greatly increased rates. The Water Authority's liability coverage is provided by Allied World Assurance Company, rated by A.M. Best as A XV, Berkley National Insurance Company, and Great American Assurance Company, both rated at A+ XV.

The table below summarizes the cost comparison of all three lines of business insurance between fiscal years 2020 and 2021. Compared to fiscal year 2020, the combined fiscal year 2021 total cost for premiums increased 0.74 percent. As stated in the two alternative staff recommendations, additional premium savings could be achieved by raising the deductibles for liability and property; however, staff recommend the deductibles in the following table as the appropriate levels.

Line of Coverage	FY 20 Deductibles	FY 20 Premiums	FY 21 Deductibles	FY 21 Premiums	Delta FY 20 to FY 21	
					Cost	%
Property	\$50,000	\$208,086	\$50,000	\$208,429	\$343	0.16%
Liability	\$75,000	\$345,697	\$75,000	\$337,053	-\$8,644	-2.50%
Workers' Comp	\$0	\$280,158	\$0	\$294,633*	\$14,475*	5.17%
<b>TOTAL COST</b>		<b>\$833,941</b>	---	<b>\$840,115</b>	<b>\$6,174</b>	<b>0.74%</b>

*\*Estimated amount. Final cost based on actual payroll.*

Prepared by: Vadim Livshits, Senior Management Analyst  
 Reviewed by: Jason Foster, Director of Administrative Services  
 Approved by: Sandra L. Kerl, General Manager