

# ACTION BRIEF

## BOARD OF DIRECTORS



### Agenda Number 8.b.1

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**MEETING DATE:** Thursday, November 2, 2023

**AGENDA ITEM:** Discussion and Consideration of Action to Approve the Insurance Program and Captive Funding for Calendar Year 2024 (*Finance^*) - Dunlap

**RECOMMENDATION:** The Finance, Audit and Power Committee recommends the Board of Directors approve the 2024 insurance program of \$14,747,774, including \$12,759,479 in funding for the Captive.

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#### FISCAL IMPLICATIONS: Yes

#### Impact on Budget:

	2024
Funds Used / Requested	\$14,747,774
Funds Included in Budget	\$14,720,114
(Over) / Under Budget	(\$27,660)

Additional spending authority requested: None

#### Impact on Reserves:

None

#### Impact on Rates:

None

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#### LINKAGE TO STRATEGIC PLAN, POLICY, STATUTE OR GUIDING PRINCIPLE:

2022 CAWCD Board Strategic Plan

Finance: *Maintaining long-term financial strength to achieve CAP's goals and being prepared to address opportunities or challenges.*

#### PREVIOUS BOARD ACTION/ACTIVITY:

9/21/2023 Preliminary Presentation to the FAP Committee on the 2024 Insurance Program.

10/19/2023 Final Presentation to the FAP Committee on the 2024 Insurance Program.

#### ISSUE SUMMARY/DESCRIPTION:

CAP's insurance program consists of premiums paid to the CAWCD Captive and to third-party insurers. As in 2023, the hardening of the insurance market in conjunction with claims experience continues to impact the insurance industry and the CAP insurance program.

This issue is evidenced by increasing premiums as commercial insurers try to rebuild reserves after many years of losses and expenses that exceeded revenues. Significant increases are notable in property insurance, with insurers needing to cover catastrophic losses that are compounded by undervaluation due to inflation.

Since the September report, there has been significant change in the outlook on premiums for commercial

liability coverage for utilities. In 2022, we successfully argued against a wildfire surcharge to our 2023 liability insurance tower. The attached “not to exceed” number for commercial liability includes a mandatory wildfire surcharge from one of our excess liability carriers in light of the Maui and California wildfires. The broker is also advising that the other excess liability carrier will be adding a wildfire surcharge in 2025.

Fortunately, current indications are that Employment Practices and Public Officials Liability, Excess Workers’ Compensation, Crime and Foreign Travel premiums will see little increase in 2024. Additionally, the Cyber Insurance Market is stabilizing, and we predict our current insurer will offer us a favorable renewal.

Captive Insurance coverage purchased through CAWCD Insurance Company is the foundation of the overall insurance program. Use of the Captive insurance mechanism, has historically insulated our insurance costs from the volatility of insurance market fluctuations. The Captive insurance policies allow us to retain the risk of first dollar losses up to \$2,000,000 for workers’ compensation, property, general, auto, law enforcement, non-owned aircraft, and fiduciary liability, as well as \$1,000,000 coverage for public officials and employment practices liability.

Preparation of the 2024 Property and Casualty premiums for the Captive Insurance Policies relies heavily upon the commercial insurance underwriting process and actuarial models. Our actuary has indicated increasing reserves for the property and workers’ compensation lines would be prudent. However, the captive premium increases are significantly less than the commercial insurance premium increases.

The Captive fully funds CAP’s health insurance benefits, including medical, prescriptions, dental, and vision. There currently is not an insurance mechanism in place for capping losses, as is found in property and casualty coverage. The purchase of a “Stop Loss” commercial insurance product continues to be evaluated, but continues to be cost-prohibitive. The health insurance program has adequate reserves as recommended by the actuary and expenses continue to be significantly under the national trend. Medical, dental and vision premiums for the Captive reflect only the increase in the number of lives insured, not a rate increase.

Historically, CAP staff would typically have good indications of the next year’s premiums by October. However, losses are driving the insurance and reinsurance markets to shorter firm quote timeframes. Underwriters are hesitant to provide firm quotes any sooner than 30 days prior to the renewal date. Some product lines may vary from the estimates indicated, but the insurance program overall is anticipated to not exceed the total program cost.

**SUGGESTED MOTION:**

I move the Board approve the 2024 insurance program of \$14,747,774, including \$12,759,479 in funding for the Captive.

**ATTACHMENTS:**

1. Presentation