

# REGIONAL TRANSIT ISSUE PAPER

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
9	01/14/13	Open	Action	01/14/13

Subject: Consideration of an Owner Controlled Insurance Program (OCIP) for the South Sacramento Corridor Phase 2 (SSCP2) Project

## ISSUE

Consideration of an Owner Controlled Insurance Program (OCIP) for the South Sacramento Corridor Phase 2 (SSCP2) Project.

## RECOMMENDED ACTION

Adopt Resolution 13-01-\_\_\_\_, Approving Adoption and Implementation of an Owner Controlled Insurance Program (OCIP) for the South Sacramento Corridor Phase 2 Project.

## FISCAL IMPACT

Budgeted:	Yes	This FY:	\$	1,946,503 <b>2,216,503*</b>
Budget Source:	Capital Budget	Next FY:	\$	1,143,448**
Funding Source:	New Starts/State Prop. 1B PTMISEA/STA/ Measure A/Developer Fees/Revenue Bonds	Annualized:	\$	1,067,253 <b>1,157,244***</b>
Cost Cntr/GL Acct(s) or Capital Project #:	N/A Phase 1- WBS 410.08.07.01	Total Amount:	\$	3,201,758 <b>3,471,731</b>
Total Budget:	\$ <del>3,201,731</del> <b>3,471,731</b>			

\* FY 13: Bickmore - \$20,000; Primary GL/WC - \$964,781; Excess Liability - ~~\$295,000~~ **565,000**; Brokerage/Administration - \$43,390; Loss Fund - \$623,332.

\*\* FY 14: Bickmore - \$30,000; Brokerage/Administration - \$86,780; Loss Fund - \$1,026,668

\*\*\*FY 15: Bickmore - \$25,000; Brokerage/Administration - \$86,780

## DISCUSSION

An OCIP is an insurance program purchased by the owner of the project ("Project Owner") that consolidates the workers' compensation and general liability insurance coverages for most participants in a construction project with a high estimated cost. The Project Owner buys the insurance coverage for qualified parties and offsets the cost of insurance through removal of contractor and subcontractor insurance costs that are typically included in the bid price of a construction project with traditional contractor-provided insurance. This consolidated insurance program increases the volume of insurance premium for a single insurer or insurance group and should generate discounts on premium costs. If losses are kept low through the administration of

Approved:

Presented:

Final Revised 1/14/13

General Manager/CEO

Chief Administrative Officer

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an aggressive safety program, which is a component part of an OCIP, additional savings can accrue to the Project Owner, through the return of any funds remaining in the prefunded Loss Fund.

In California, public agencies are authorized to use an OCIP for any construction project whose estimated cost exceeds \$50,000,000. Before adopting an OCIP, a public agency must determine that, with good risk management, an OCIP will minimize the expenditure of public funds. Put another way, the public agency must make a finding that using an OCIP will result in a cost savings over traditional contractor provided insurance. Government Code Section 4420(b) states in part:

*“A State or local governmental agency may use owner controlled or wrap up insurance with regard to a construction or renovation program for which the total cost exceeds fifty million dollars (\$50,000,000) if the agency meets all of the following conditions and certifies that it has made the following determinations ... (2) use of owner-controlled or wrap will minimize the expenditure of public funds on the project in conjunction with the exercise of appropriate risk management.”*

To assist RT in determining whether an OCIP for SSCP2 minimizes the expenditure of public funds, RT employed the consulting firm of Ron Rakich and Associates, Inc., (now Bickmore and Associates, Inc. (Bickmore)), to prepare a cost benefit analysis of an OCIP for SSCP2 and to provide technical advice in securing an insurance broker to price the insurance market for the necessary coverage and provide those costs to RT and Bickmore for evaluation. In May 2012, the Board authorized release of an RFP for insurance broker services. In November 2012, a contract was signed with the firm of Merriweather and Williams Insurance Services (Merriweather & Williams) to obtain insurance prices and prepare a comprehensive underwriting submission detailing the broadest available protection and appropriate insurance extensions of coverage.

On January 4, 2013, RT received the analysis from both Merriweather & Williams and Bickmore. Their reports (attached hereto as Attachments 1 and 2, respectively) analyzed a range of potential insurance costs using 3 project cost scenarios. Scenario 1, was based on the engineer’s estimated construction value (CV) of the SSCP2 of \$94,270,755. Scenario 2, used a CV of \$103,967,831, which is 10% over the engineer’s estimate. Scenario 3, used a CV of \$84,843,680, which is at 10% below the engineer’s estimate. All three scenarios examined insurance costs using loss ratio assumptions ranging from 25% to 55%.

***Upon continuing review of this matter today, it was determined that the Excess Liability Insurance coverage had to be increased from \$25,000,000 per claim and aggregate, to \$50,000,000 per claim and \$100,000,000 aggregate coverage to satisfy an insurance requirement of the Union Pacific Railroad required for operations in its right of way. The increased Excess Liability Insurance coverage increased the FY 13 and overall OCIP cost by \$270,000. All of the analysis and costs set forth herein reflect the revised costs.***

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The following tables display the results of their (*Merriweather & Williams and Bickmore's*) analysis.

**Scenario No. 1 = \$94,270,755 CV**

Loss Ratio	Total OCIP Deductible Losses and Claim Fees	Estimated Contractor's Insurance Cost	Total OCIP Cost, Fixed and Variable	Cost Differential	GL Hold	Cost Differential with GL Hold
25%	\$699,715	\$2,921,776	\$2,294,836	\$626,940	\$268,581	\$358,359
30%	\$839,658	\$2,921,776	\$2,434,779	\$486,997	\$268,581	\$218,416
35%	\$979,601	\$2,921,776	\$2,574,722	\$347,054	\$268,581	\$78,473
40%	\$1,119,545	\$2,921,776	\$2,714,665	\$207,111	\$268,581	-\$61,470
45%	\$1,259,488	\$2,921,776	\$2,854,608	\$67,167	\$268,581	-\$201,414
50%	\$1,399,431	\$2,921,776	\$2,994,551	-\$72,776	\$268,581	-
55%	\$1,539,374	\$2,921,776	\$3,134,494	-\$212,719	\$268,581	-

**Scenario No. 2 = \$103,697,831 CV**

Loss Ratio	Total OCIP Deductible Losses and Claim Fees	Estimated Contractor's Insurance Cost	Total OCIP Cost, Fixed and Variable	Cost Differential	GL Hold	Cost Differential with GL Hold
25%	\$725,533	\$3,213,953	\$2,417,132	\$796,822	\$295,439	\$501,383
30%	\$870,639	\$3,213,953	\$2,562,238	\$651,715	\$295,439	\$356,276
35%	\$1,015,746	\$3,213,953	\$2,707,345	\$506,609	\$295,439	\$211,170
40%	\$1,160,853	\$3,213,953	\$2,852,451	\$361,502	\$295,439	\$66,063
45%	\$1,305,959	\$3,213,953	\$2,997,558	\$216,395	\$295,439	-\$79,044
50%	\$1,451,066	\$3,213,953	\$3,142,664	\$71,289	\$295,439	-\$224,150
55%	\$1,596,172	\$3,213,953	\$3,287,771	-\$73,818	\$295,439	-

**Scenario No. 3 = \$84,843,680 CV**

Loss Ratio	Total OCIP Deductible Losses and Claim Fees	Estimated Contractor's Insurance Cost	Total OCIP Cost, Fixed and Variable	Cost Differential	GL Hold	Cost Differential with GL Hold
25%	\$673,898	\$2,629,598	\$2,172,540	\$457,058	\$241,723	\$215,335
30%	\$808,677	\$2,629,598	\$2,307,320	\$322,278	\$241,723	\$80,555
35%	\$943,457	\$2,629,598	\$2,442,100	\$187,499	\$241,723	-\$54,244
40%	\$1,078,236	\$2,629,598	\$2,576,879	\$52,719	\$241,723	-\$189,004
45%	\$1,213,016	\$2,629,598	\$2,711,659	-\$82,060	\$241,723	-
50%	\$1,347,796	\$2,629,598	\$2,846,438	-\$216,840	\$241,723	-
55%	\$1,482,575	\$2,629,598	\$2,981,218	-\$351,620	\$241,723	-

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**Senario No. 1 = \$94,270,755 CV**

Loss Ratio	Total OCIP Deductible Losses and Claim Fees	Estimated Contractor's Insurance Cost	Total OCIP Cost, Fixed and Variable	Cost Differential	GL Hold	Cost Differential with GL Hold
25%	\$699,715	\$3,157,743	\$2,564,836	\$592,907	\$268,581	\$324,326
30%	\$839,658	\$3,157,743	\$2,704,779	\$452,964	\$268,581	\$184,383
35%	\$979,601	\$3,157,743	\$2,844,722	\$313,021	\$268,581	\$44,440
40%	\$1,119,545	\$3,157,743	\$2,984,665	\$173,078	\$268,581	-\$95,503
45%	\$1,259,488	\$3,157,743	\$3,124,608	\$33,135	\$268,581	-\$235,446
50%	\$1,399,431	\$3,157,743	\$3,264,551	-\$106,808	\$268,581	
55%	\$1,539,374	\$3,157,743	\$3,404,494	-\$246,751	\$268,581	

**Senario No. 2 = \$103,697,831 CV**

Loss Ratio	Total OCIP Deductible Losses and Claim Fees	Estimated Contractor's Insurance Cost	Total OCIP Cost, Fixed and Variable	Cost Differential	GL Hold	Cost Differential with GL Hold
25%	\$725,533	\$3,473,518	\$2,742,132	\$731,386	\$295,439	\$435,947
30%	\$870,639	\$3,473,518	\$2,887,238	\$586,279	\$295,439	\$290,840
35%	\$1,015,746	\$3,473,518	\$3,032,345	\$441,173	\$295,439	\$145,734
40%	\$1,160,853	\$3,473,518	\$3,177,451	\$296,066	\$295,439	\$627
45%	\$1,305,959	\$3,473,518	\$3,322,558	\$150,960	\$295,439	-\$144,479
50%	\$1,451,066	\$3,473,518	\$3,467,664	\$5,853	\$295,439	-\$289,586
55%	\$1,596,172	\$3,473,518	\$3,621,771	-\$139,254	\$295,439	

**Senario No. 3 = \$84,843,680 CV**

Loss Ratio	Total OCIP Deductible Losses and Claim Fees	Estimated Contractor's Insurance Cost	Total OCIP Cost, Fixed and Variable	Cost Differential	GL Hold	Cost Differential with GL Hold
25%	\$673,898	\$2,841,969	\$2,387,540	\$454,428	\$241,723	\$212,705
30%	\$808,677	\$2,841,969	\$2,522,320	\$319,649	\$241,723	\$77,926
35%	\$943,457	\$2,841,969	\$2,657,100	\$184,869	\$241,723	-\$56,854
40%	\$1,078,236	\$2,841,969	\$2,791,879	\$50,090	\$241,723	-\$191,633
45%	\$1,213,016	\$2,841,969	\$2,926,659	-\$84,690	\$241,723	
50%	\$1,347,796	\$2,841,969	\$3,061,438	-\$219,469	\$241,723	
55%	\$1,482,575	\$2,841,969	\$3,196,218	-\$354,249	\$241,723	



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The Consultants who reviewed the SSCP2 project have advised RT that with our commitment to an aggressive safety program, a 30% loss ratio is a reasonable assumption for the project. With that loss ratio assumption and using the engineer’s estimated CV set out in Scenario 1, above, using an OCIP will yield a potential cost savings of \$218,416, over the traditional insurance approach. In that regard, the OCIP would “minimize the expenditure of public funds on the project” as required, in part, by Government Code 4420. Consequently, the Board can **reasonably** make a determination that adopting and using an OCIP for the SSCP2 will minimize the expenditure of public funds over the use of the traditional contractor provided insurance approach.

Although not required by the governing statute, there are additional benefits to using an OCIP for SSCP2. The removal of insurance requirements may remove barriers for small contractors who would be dissuaded from participating as subcontractors on the project because the insurance requirements are cost-prohibitive. Additionally, an OCIP allows RT to highlight its commitment to project safety, and will likely lead to a reduction or elimination of the cross-litigation potential and result in a greater certainty of adequate insurance protection. ***The value of dedicated excess liability coverage included in the OCIP will also be fully available to protect RT’s potential exposure.*** Moreover, the use of an OCIP on SSCP2, will allow RT to gain experience with OCIPs that can be employed in the future if ~~RT uses an OCIP~~ on subsequent projects like ***such as*** the Green Line extension.

Based upon the foregoing, staff recommends that the Board approve using the OCIP insurance program for the construction of the SSCP2 project.

# Sacramento Regional Transit District

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Owner Controlled Insurance Program (OCIP)  
OCIP Feasibility Report – v.3 \$100M Excess

Revised January 14<sup>th</sup>, 2013

**Merriwether & Williams Insurance Services, Inc.**  
**Partnered with Turner Surety and Insurance Brokerage**

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*...Of Like Minds*



# OCIP Feasibility Report Overview

## Report Requirements

In addition to the Phase I Report provided to the District on December 21<sup>st</sup>, our team agreed to assemble an independent financial feasibility assessment by December 28<sup>th</sup>. While a more traditional OCIP feasibility study would include broad considerations such as insurance availability, coverage terms and conditions, and project impacts\*, we were asked by the District and District's Consultant to focus primarily on the financial aspects and range of potential outcomes.

Having provided the initial feasibility assessment on December 28<sup>th</sup>, and as a result of the District's meetings and review on January 3<sup>rd</sup>, our team was subsequently asked to make the enclosed revisions:

- Adjust the contractors' combined GL/WC insurance cost rate to \$14.00/\$100 payroll
- Estimate the impacts of requiring \$25M excess liability from the General Contractor and OCIP
- Revise the OCIP insurance fixed cost to reflect new values provided by XL Insurance on January 3<sup>rd</sup>
- Adjust the OCIP Aggregate Deductible (Max Loss) to also reflect the new XL value provided
- Increase OCIP administrative fees by \$75,000 for the addition of Bickmore on a going forward basis
- Incorporating the above changes, provide three potential bid result scenarios:
  1. *Current District Estimate from December 19<sup>th</sup> = \$94,270,755*
  2. *Current Estimate + 10% = \$103,698,831*
  3. *Current Estimate – 10% = \$84,846,682*

With the revised report including the above having been provided on January 4<sup>th</sup>, on January 11<sup>th</sup> our team was further requested to incorporate additional insurance requirements as follows:

- Estimate the impacts of requiring \$50M per occurrence and \$100M aggregate excess liability insurance limits from the General Contractor and OCIP
- Incorporate a Railroad Protective Liability insurance requirement with \$25M per occurrence and \$25M aggregate limits for both General Contractor and OCIP

It is worth noting that the above liability insurance limit requirements are specified by Union Pacific as \$50M per occurrence and \$100M aggregate. This is an unusual structure in the insurance marketplace however and both General Contractors as well as the OCIP placement would most likely need to obtain \$100M limit per occurrence in order to obtain \$100M aggregate. For this reason, the following analysis compares \$100M per occurrence and \$100M aggregate liability insurance limits for both General Contractor and OCIP.

*\*A broader updated feasibility review having been provided by District's Consultant, Bickmore, on April 12<sup>th</sup>, 2012.*

## Overview of Owner Controlled Insurance Programs (OCIPs)

Construction project insurance is typically a collection of pieced together contractor and subcontractor indemnities and individual insurance policies. Each contractor and subcontractor agrees to provide insurance required by the project owner or contractor 'above' them and provides evidence annually of their coverage. Unfortunately, the terms and conditions of each insurance policy are based on the contractor's overall portfolio needs and not the specific project. Additionally, the limits of liability under each contractor policy are shared with all other project owners for which the contractor performs work during the policy period. As a result, a degree of uncertainty exists for project owners as to whether or not appropriate insurance has been obtained by all contractors or is in effect and available at the time of a loss. Although project-specific limits are available in the market, they are not usually required by public entities and can be cost-prohibitive for contractors.

In an effort to counteract these challenges (and others), many project owners utilize consolidated insurance programs (CIP) or "wrap ups". These programs unify insurance for all parties working on a specified project(s) under one program procured by the owner. The controlling entity is referred to as the "sponsor" and the resulting program as an OCIP (Owner Controlled Insurance Program).

Without the utilization of an OCIP, each contractor and subcontractor purchases their workers' compensation, general liability, and excess insurance, subject to the terms and conditions of the project owner and/or general contractor, and the cost is included in each contractor's bid. In the aggregate, the project owner pays for all contractors' insurance costs for each project in the form of collective bids including insurance costs. Under an OCIP, the owner requires contractors to remove insurance costs from their bids as the owner is paying for the insurance program. This process creates a reduction in total bid costs to offset the cost of the owner procured insurance. The degree to which bid costs are offset, partially to outright creating savings, is the essence of an OCIP financial feasibility review.

## Coverage Included in an OCIP

An OCIP typically applies to the consolidation for all contractors and subcontractors of:

- Workers' Compensation Insurance
  - General Liability Insurance
  - Excess Liability Insurance
- (Other coverage such as pollution liability may be included as needed)*

In total, workers' compensation, general liability, and excess can equate to 80% or more of all project insurance costs and financial and coverage improvements in these two areas can prove very significant.



# OCIP Financial Modeling

## Summary of Modeling

This financial feasibility report compares the anticipated contractors' insurance cost included in bids without District OCIP purchase to the potential range of financial outcomes under an OCIP. Because an OCIP includes fixed (premium, administration) and variable (claims deductibles) expense components, a range of potential outcomes has been developed and matched against costs without OCIP.

In an effort to compare equivalent options, the following tables outline specific insurance parameters for each option. The Contractor Required Insurance (Without OCIP) as well as the OCIP provided insurance are primary Workers Compensation and General Liability, plus \$100M Excess per District request.

Contractor Required Insurance (Without OCIP)	
Workers Compensation Limit of Liability	Statutory / Statutory/ \$1,000,000 <i>(Per Claim / Aggregate / Employers Liability)</i> Required of Every Contractor of All Tiers
General Liability Limit of Liability	\$1,000,000 / \$2,000,000 / \$2,000,000 <i>(Per Claim / Aggregate / Completed Operations)</i> Required of All Contractors of All Tiers
Excess Liability Limit of Liability <i>(Typically Over Liability Only)</i>	\$100,000,000 / \$100,000,000 / \$100,000,000 <i>(Per Claim / Aggregate / Completed Operations)</i> Required of General Contractor

OCIP Provided Insurance	
Workers Compensation Limit of Liability	Statutory / Statutory / \$1,000,000 <i>(Per Claim / Aggregate / Employers Liability)</i> Provided to District and Contractors of All Tiers
General Liability Limit of Liability	\$2,000,000 / \$4,000,000 / \$4,000,000 <i>(Per Claim / Aggregate / Completed Operations)</i> Provided to District and Contractors of All Tiers
Excess Liability Limit of Liability <i>(Over Employer's Liability and General Liability)</i>	\$100,000,000 / \$100,000,000 / \$100,000,000 <i>(Per Claim / Aggregate / Completed Operations)</i> Provided to District and Contractors of All Tiers

It should be noted that General Contractor's general liability and excess liability insurance limits are shared across all projects being worked on by that General Contractor, whereas the OCIP limits are dedicated to the District project only.



# OCIP Financial Modeling

## Contractor Provided Insurance Cost

Contractor insurance costs are driven by project payroll for workers compensation and payroll or overall construction value for general liability. In order to estimate total contractor insurance cost on the project, representative data is usually developed based on past project experience and includes average overall project payroll as a percentage of construction cost, estimated payroll breakdowns by individual construction trade, workers compensation rates by trade, and general liability rates by trade.

Specifically for the SSC2 project, our team was fortunate enough to be able to coordinate with District personnel on developing a formal project budget with labor breakdowns by trade classification. With data on contractor insurance costs for over \$400,000,000 in recent California construction, our team then compared those project estimates to average classification insurance rates to develop estimated contractor workers' compensation and general liability costs for the SSC2 project.

As a result of these efforts, as well as the efforts of District consultant, we have determined both estimated payroll percentages for the SSC2 project as well as estimated contractors' primary General Liability and Workers' Compensation insurance costs without OCIP as below:

	Construction Value	Estimated Project Payroll
Original Submission	\$ 106,292,000	\$ 21,630,700
Scenario 1 – Current 12/19/12 Estimate	\$ 94,270,755	\$ 19,184,345
Scenario 2 – 12/19/12 + 10%	\$ 103,697,831	\$ 21,102,780
Scenario 3 – 12/19/12 – 10%	\$ 84,843,680	\$ 17,265,911

In summary, this data collectively indicated estimated project payroll of 20.35% and when classified by contractor trade resulted in average contractors' insurance costs of \$14.00/\$100 payroll for primary General Liability and Workers Compensation insurance combined. These figures are consistent with general industry estimates for projects not including the additional cost of excess liability.

## Increasing Market Rates and Impact on Contractor Insurance Costs

Contractor insurance cost as estimated above is based on retrospective project data. With contractor workers' compensation costs increasing in 2012 and significant additional increases expected in 2013, we are estimating a conservative net increase to contractors' workers' compensation costs over the SSC2 project period (2013-2015) as well as a slightly lower project increase to contractors' liability costs. Both of these expected market changes are incorporated into the \$14.00/\$100 primary payroll rate above.



## Excess Liability Insurance Costs for Contractors

Excess liability insurance is generally rated on a percentage of Construction Value for the General Contractor. The cost of such coverage varies based on underwriting of the General Contractor, including considerations of their overall size, experience, claims history, safety programs, etc. On average, the cost of this coverage for \$100M limit per occurrence and \$100M aggregate is between 0.50 – 0.60% of Construction Value.

In our earlier report including \$25M excess of December 28<sup>th</sup>, a conservative 0.25% of Construction Value was converted into a percentage of Payroll rate and included in the total Contractors' General Liability insurance rate per \$100/payroll.

For purposes of this report, we have utilized a conservative 0.50% of Construction Value and incorporated it into the contractors' combined GL/WC payroll rate for each of the three modeling Scenarios. The inclusion of \$100M of excess liability required of the General Contractor equates to an estimated increase to the Contractors' insurance cost combined rate from \$14.00 per \$100 payroll to \$16.46 per \$100 payroll. (This is a very conservative rate in our estimation and would reflect the insurance cost for many of the largest national General Contractors. Regional or mid-size General Contractors would likely have significantly higher excess liability insurance costs.)

As an example for Scenario 1, the excess liability insurance cost as 0.50% of Construction Value (\$94,270,755) is \$471,358. Dividing that excess insurance cost by the estimated project payroll (\$19,184,345) equals 0.0246 or \$2.46 per \$100 of payroll. Adding the excess liability insurance cost of \$2.46 to the primary GL/WC combined rate of \$14.00 equals a total of \$16.46 per \$100 payroll in each of the Modeling Scenarios:

	Construction Value	Estimated Project Payroll	Combined GL/WC Rate	\$100M Excess Rate	Excess as Payroll %	New Combined GL/WC Rate
Scenario 1: 12/19 CV	\$ 94,270,755	\$ 19,184,345	14.00%	0.50% CV	2.46%	16.46%
Scenario 2: 12/19 + 10%	\$ 103,697,831	\$ 21,102,780	14.00%	0.50% CV	2.46%	16.46%
Scenario 3: 12/19 – 10%	\$ 84,843,680	\$ 17,265,911	14.00%	0.50% CV	2.46%	16.46%

## Excess Liability Insurance Requirements for Subcontractors

It should be noted that the above contractors' excess insurance costs do not include the costs of significant excess liability requirements of subcontractors. In many instance, General Contractors pass significant excess liability insurance requirements down to subcontractors unless otherwise directed by the Project Owner.

Key subcontractors performing large or hazardous scopes of work (steel erection, site grading) may be required to provide up to \$25M or even \$50M of the District excess liability requirement. The remaining subcontractors may then be required to provide up to \$5M or \$10M excess again if the General Contractor is not otherwise directed by the District. This can be a particularly important consideration when trying to meet specific small and diverse subcontractor utilization goals.



# OCIP Financial Modeling

## OCIP Fixed Expenses

The total fixed costs of implementing the District OCIP include the following individual components:

1. Workers Compensation Insurance Premium
2. Liability Insurance Premium
3. \$100M Excess Liability
4. Insurance Brokerage and Program Administration Including Supplemental Safety Services
5. OCIP Consulting

Utilizing the revised XL Insurance proposal from January 3<sup>rd</sup>, and updated excess insurance costs from January 10<sup>th</sup> and 11<sup>th</sup>, each fixed expense is outlined in the following table:

OCIP Fixed Cost Components	Program Cost
1. Workers Compensation	\$3.0290 / \$100 Payroll
2. Liability Insurance	\$2.0000 / \$100 Payroll
3. \$100M Excess Liability*	0.55% – 0.60% Construction Value
4. Insurance Brokerage and Program Administration**	\$ 260,340
5. OCIP Consulting***	\$ 75,000
<b>Total Fixed OCIP Costs</b>	<b>Varies with Each Scenario</b>

\*Revised OCIP excess liability premiums from January 3<sup>rd</sup>

\*\*\$265,340 for the Merriwether/TSIB Team less \$5,000 guaranteed for Phase I delivery.

\*\*\* Bickmore Risk Services consulting fee should the District elect OCIP.

## Estimated OCIP Deductible Losses

The District OCIP would require a significant deductible for workers compensation and liability claims. In each case, the first \$250,000 of loss per claim would be paid by the District. The total of these paid deductibles (plus related claims fees charged at 7.04% of each claim) is capped over the program period and currently quoted at \$1,766,160. This cap or Maximum Aggregate Deductible assures the District that a series of severe claims will not result in undue losses beyond the maximum amount. In summary, this means that the District could incur variable program costs ranging from \$0 – 1,766,160.

This broad range can be further refined based on our insurance company's projected loss estimates as well as our team's individual experience managing programs of this nature in California. To begin, the program's primary insurer estimates total program losses within the deductible at \$950,000. Including insurer claims costs increases this amount to \$1,016,880. Our team experience, taking into account both the project scope and the high level of dedicated safety for this project (District personnel, PM assigned subcontractor personnel, Prime contractor required assigned personnel, plus OCIP team supplemental resources), estimates a significantly more successful program loss experience.

Combining the total range of deductible losses and range of expected losses with the OCIP fixed costs, provides a total range of potential OCIP expenses. Further adding in the fixed contractors insurance cost model (without OCIP) provides a comparative overview of the respective insuring options and feasibility analysis of OCIP utilization. The combined models are presented on the next page in the form of tables illustrating the range of potential financial performance under the OCIP in each of the requested Construction Value Scenarios.



# OCIP Financial Modeling

Combined Financial Model, Scenario 1 = \$94,270,755 CV

The following financial model illustrates the range of potential OCIP financial outcomes (A.) for various loss ratios up to the maximum, compared to estimated contractor provided insurance costs (B.), as a resulting savings (C.) in red or additional expense in black.

Loss Ratio	A. Total OCIP Deductible Losses and Claims Fees*	Total OCIP Costs, Fixed and Variable	B. Estimated Contractors' Insurance Costs	C. Cost Differential or OCIP Savings
0%	\$0	\$1,865,121	\$3,157,743	(\$1,292,623)
5%	\$139,943	\$2,005,064	\$3,157,743	(\$1,152,679)
10%	\$279,886	\$2,145,007	\$3,157,743	(\$1,012,736)
15%	\$419,829	\$2,284,950	\$3,157,743	(\$872,793)
20%	\$559,772	\$2,424,893	\$3,157,743	(\$732,850)
25%	\$699,715	\$2,564,836	\$3,157,743	(\$592,907)
30%	\$839,658	\$2,704,779	\$3,157,743	(\$452,964)
35%	\$979,601	\$2,844,722	\$3,157,743	(\$313,021)
40%	\$1,119,545	\$2,984,665	\$3,157,743	(\$173,078)
45%	\$1,259,488	\$3,124,608	\$3,157,743	(\$33,135)
50%	\$1,399,431	\$3,264,551	\$3,157,743	\$106,808
55%	\$1,539,374	\$3,404,494	\$3,157,743	\$246,751
60%	\$1,679,317	\$3,544,437	\$3,157,743	\$386,694
63%	\$1,766,160	\$3,631,281	\$3,157,743	\$473,537

\*Including associated claims fees of 7.04% of loss payable to primary insurance company.

As can be seen from the table above, the financial results from OCIP utilization range from \$1,292,623 in savings for the SSC2 project to additional insurance expense of \$473,537 at the District's maximum cost.

It should be noted that this model varies slightly from previous models provided as respects loss ratio. Previously loss ratio was a percentage of Contractors' Insurance Costs. For consistency however, the loss ratio now reflects a percentage of OCIP Maximum Insurance Cost (and does not include administrative, brokerage, or consulting fees).

For Scenario 1, this OCIP Maximum Insurance Cost is \$2,614,781 or a total of:

OCIP Fixed Primary Insurance Premium (Payroll x 0.05029)	\$ 964,781
Maximum Losses Under the Deductible	\$ 1,650,000
<b>Maximum Insurance Cost</b>	<b>\$ 2,614,781</b>

For a 30% loss ratio as an example, 30% of \$2,614,781 is \$784,434. Adding in 7.04% for claims administration equals \$839,658 total losses plus claims fees.



# OCIP Financial Modeling

Combined Financial Model, Scenario 2 = \$103,697,831 CV

The following financial model illustrates the range of potential OCIP financial outcomes (A.) for various loss ratios up to the maximum, compared to estimated contractor provided insurance costs (B.), as a resulting savings (C.) in red or additional expense in black.

Loss Ratio	Total OCIP Deductible Losses and Claims Fees*	A. Total OCIP Costs, Fixed and Variable	B. Estimated Contractors' Insurance Costs	C. Cost Differential or OCIP Savings
0%	\$0	\$2,016,599	\$3,473,518	(\$1,456,919)
5%	\$145,107	\$2,161,705	\$3,473,518	(\$1,311,812)
10%	\$290,213	\$2,306,812	\$3,473,518	(\$1,166,706)
15%	\$435,320	\$2,451,919	\$3,473,518	(\$1,021,599)
20%	\$580,426	\$2,597,025	\$3,473,518	(\$876,492)
25%	\$725,533	\$2,742,132	\$3,473,518	(\$731,386)
30%	\$870,639	\$2,887,238	\$3,473,518	(\$586,279)
35%	\$1,015,746	\$3,032,345	\$3,473,518	(\$441,173)
40%	\$1,160,853	\$3,177,451	\$3,473,518	(\$296,066)
45%	\$1,305,959	\$3,322,558	\$3,473,518	(\$150,960)
50%	\$1,451,066	\$3,467,664	\$3,473,518	(\$5,853)
55%	\$1,596,172	\$3,612,771	\$3,473,518	\$139,254
60%	\$1,741,279	\$3,757,878	\$3,473,518	\$284,360
61%	\$1,766,160	\$3,782,759	\$3,473,518	\$309,241

\*Including associated claims fees of 7.04% of loss payable to primary insurance company.

As can be seen from the table above, the financial results from OCIP utilization range from \$1,456,949 in savings for the SSC2 project to additional insurance expense of \$243,805 at the District's maximum cost.

It should be noted that this model varies slightly from previous models provided as respects loss ratio. Previously loss ratio was a percentage of Contractors' Insurance Costs. For consistency however, the loss ratio now reflects a percentage of OCIP Maximum Insurance Cost (and does not include administrative, brokerage, or consulting fees).

For Scenario 2, this OCIP Maximum Insurance Cost is \$2,711,259 or a total of:

OCIP Fixed Primary Insurance Premium (Payroll x 0.05029)	\$ 1,061,259
Maximum Losses Under the Deductible	\$ 1,650,000
<b>Maximum Insurance Cost</b>	<b>\$ 2,711,259</b>

For a 30% loss ratio as an example, 30% of \$2,711,259 is \$813,378. Adding in 7.04% for claims administration equals \$870,639 total losses plus claims fees.



# OCIP Financial Modeling

Combined Financial Model, Scenario 3 = \$84,843,680 CV

The following financial model illustrates the range of potential OCIP financial outcomes (A.) for various loss ratios up to the maximum, compared to estimated contractor provided insurance costs (B.), as a resulting savings (C.) in red or additional expense in black.

Loss Ratio	A. Total OCIP Deductible Losses and Claims Fees*	A. Total OCIP Costs, Fixed and Variable	B. Estimated Contractors' Insurance Costs	C. Cost Differential or OCIP Savings
0%	\$0	\$1,713,643	\$2,841,969	(\$1,128,326)
5%	\$134,780	\$1,848,422	\$2,841,969	(\$993,547)
10%	\$269,559	\$1,983,202	\$2,841,969	(\$858,767)
15%	\$404,339	\$2,117,981	\$2,841,969	(\$723,988)
20%	\$539,118	\$2,252,761	\$2,841,969	(\$589,208)
25%	\$673,898	\$2,387,540	\$2,841,969	(\$454,428)
30%	\$808,677	\$2,522,320	\$2,841,969	(\$319,649)
35%	\$943,457	\$2,657,100	\$2,841,969	(\$184,869)
40%	\$1,078,236	\$2,791,879	\$2,841,969	(\$50,090)
45%	\$1,213,016	\$2,926,659	\$2,841,969	\$84,690
50%	\$1,347,796	\$3,061,438	\$2,841,969	\$219,469
55%	\$1,482,575	\$3,196,218	\$2,841,969	\$354,249
60%	\$1,617,355	\$3,330,997	\$2,841,969	\$489,028
65%	\$1,752,134	\$3,465,777	\$2,841,969	\$623,808
66%	\$1,766,160	\$3,479,803	\$2,841,969	\$637,834

\*Including associated claims fees of 7.04% of loss payable to primary insurance company.

As can be seen from the table above, the financial results from OCIP utilization range from \$1,128,326 in savings for the SSC2 project to additional insurance expense of \$637,834 at the District's maximum cost.

It should be noted that this model varies slightly from previous models provided as respects loss ratio. Previously loss ratio was a percentage of Contractors' Insurance Costs. For consistency however, the loss ratio now reflects a percentage of OCIP Maximum Insurance Cost (and does not include administrative, brokerage, or consulting fees).

For Scenario 3, this OCIP Maximum Insurance Cost is \$2,518,303 or a total of:

OCIP Fixed Insurance Premium (Payroll x 0.05029)	\$ 868,303
Maximum Losses Under the Deductible	\$ 1,650,000
<b>Maximum Insurance Cost</b>	<b>\$ 2,518,303</b>

For a 30% loss ratio as an example, 30% of \$2,518,303 is \$755,491. Adding in 7.04% for claims administration equals \$808,677 total losses plus claims fees.



## Railroad Protective Liability Insurance

This coverage is required by Union Pacific and serves to protect Union Pacific exclusively in the event of a liability claim. It can be purchased by either the General Contractor or District at the same cost and therefore can be reviewed independently and outside of the OCIP feasibility.

## Recommendations

Taking into consideration the above feasibility analysis, it is our conclusion that the District OCIP provides financial incentive for utilization in each of the Construction Value scenarios. Significant cost savings are estimated in the expected range of outcomes even at very conservative loss estimates which are reasonable considering the project scope and dedicated safety efforts in place. As with all self-insurance, OCIP utilization is not without risk and under worst case loss scenarios, the OCIP would function at a modest increase (15% on average across scenarios) over contractor provided insurance costs while still providing the myriad additional benefits outlined following.

## Additional Considerations

### Removing Insurance as a Barrier for Small and Local Subcontractors

With the use of federal funds on the SSC2 project, the District will be utilizing a significant number of small and diverse subcontractors. One goal of many OCIP's is to remove insurance as a potential barrier to project participation. Without an OCIP, it is likely that the District would require \$100M in total liability insurance limit for the project. While this amount is only expressly required of the prime contractor, in almost all cases the prime will pass at least a substantial portion of the requirement down to subcontractors of every tier. This level of insurance requirement can prove prohibitive to small contractors' on availability and cost bases, reducing the total bidding pool of subcontractors and ability of the District and prime contractor to achieve outreach and utilization goals. The District can effectively remove this obstacle by providing insurance for the project under an OCIP.

### Providing Insurance Coverage Enhancements

- **Dedicated Insurance Limits** – As noted previously, General Contractor provided insurance limits are shared across all of the General Contractor's projects. The District risks significant claims occurring on other projects and eroding the available insurance for District project claims.
- **District Control** – Without an OCIP, the District is relying on contractors of all tiers to properly secure, provide evidence of, and maintain required insurance. This is an intensive process and often contractors do not obtain or maintain required coverage even when contractually obligated to do so. Under an OCIP, the District controls the procurement process and can ensure continuous coverage.
- **Improved Coverage Terms and Conditions** – OCIPs are usually available with coverage enhancements not otherwise broadly available to contractors. Examples are dedicated limits of insurance to the project, limited cancellation of coverage provisions, and completed operations coverage out to 10 years or applicable statute.
- **Unified Defense and Claims Control** – Without an OCIP, construction claims can be extremely contentious with multiple parties, their respective insurers, and a litany of corresponding attorneys involved. OCIP's are developed with unified defense of claims in mind and one insurance program defending all parties involved. Control of that claims defense under an OCIP is between the District and insurer directly, rather than under the control of various contractors and their respective insurers.

## Collateral and Loss Fund Requirements

Each OCIP insurance option presented in the Phase I Report requires the posting of either a Letter of Credit (LOC) or cash as collateral to support the District's deductible. In general, the collateral requirements range from \$664,000 to \$1,678,000 with the pricing option reflected in this modeling requiring a \$976,000 LOC or posting of \$1,100,000 in cash.

The costs, if any, of obtaining collateral for the District are not known to our team and therefore not included in the pricing model. In many cases, an investment rate of return in the form of a discounted fixed insurance premium would be provided to the District for posting cash collateral as a potential offset to some or all of those costs.

For additional consideration, many public entities are funding OCIP loss funds up to maximum loss to ensure that future claims responsibilities are 'fully reserved'. In these cases, loss fund dollars are released over time based on actuarial assessments or through a portfolio transfer to the primary OCIP insurer. These are options that can be further discussed in detail with our team or District's Consultant.

## Mitigating Construction Insurance Rate Increases

After several years of depressed construction activity and decreasing construction insurance rates, the insurance industry is experiencing the start of another hardening cycle. For California specifically, the coming years are expected to bring significant workers' compensation rate increases.

Without utilization of an OCIP, each project contractor is required to purchase insurance annually during the course of construction plus for a period of time thereafter (completed operations coverage requirement). Viewed from that perspective, it is in the District's best interest to utilize a program that guarantees insurance rates for several years and insulates contractors and projects from significant insurance premium increases.

## Property Insurance (Builders Risk)

Usually the project owner or general contractor arranges property insurance coverage for projects during the course of construction, or Builder's Risk insurance. Builder's Risk is a standard purchase regardless of whether or not the District elects to utilize an OCIP and procurement is necessary in either case.

## Project Pollution Liability

Several options exist for providing pollution liability insurance on the District project and they are independent of the decision whether or not to utilize an OCIP:

- District Purchased Project Coverage – District purchase of all project pollution insurance
- Contractors' Pollution Liability Program – District purchase of insurance program for all contractors
- General Contractor Purchased Project Coverage – GC purchase of all project pollution insurance
- Individual Contractor and Subcontractor Insurance Requirements – require each contractor and subcontractor to meet requirement individually



Owner Controlled Insurance Program  
The Final Analysis

Sacramento Regional Transit

January 4, 2013





## The Final Analysis: Sponsor Objectives and Risk Financing Options

Objectives	Met Through OCIP?	Met Through Traditional Approach?
1. Savings	Yes/No; Pro forma analysis demonstrates savings under certain loss assumptions while other loss assumptions do not evidence savings	Yes/No; At some loss levels, Contractors and subcontractors can provide insurance at lower costs than sponsor while other loss levels demonstrate the sponsor can provide insurance at a lower cost.
2. Promote Small Business Participation	Yes; Removes “insurance barrier” for small contractors.	Yes; Insurance language in contract can be crafted to restrict contractors from “passing down” onerous insurance requirements.
3. Higher Scrutiny Over Safety	No; OCIP insurer will not offer additional scrutiny over safety.	Yes; Adequate safety resources in place.

Ron Rakich and Associates, Inc., now Bickmore and Associates, Inc. (Bickmore), conducted the first owner controlled insurance program (OCIP) feasibility study for Sacramento Regional Transit (RT) in 2010. During the study, RT staff was interviewed about their objectives for a potential OCIP program. As the table indicates above, the objectives of savings, promoting small business, and a higher level of safety were consistently stated throughout the organization. During the “refresh” study in 2012, this same question was asked and, coincidentally, RT staff stated the same objectives.

In Fall 2012, RT adopted one of the study’s recommendations to competitively select an insurance broker to market the OCIP and determine if OCIP insurance rates would be less than what contractors would pay under a traditional insurance approach. In December 2012, Merriwether and Williams Insurance Services (MWIS), the selected insurance broker, presented the marketing results. All results were analyzed and RT’s objectives were revisited to determine if they could be met. As the table indicates above, several of RT’s objectives could be met, especially at lower loss program levels. Outlined below are additional details regarding this analysis.

- (1) Savings: Bickmore calculated different scenarios of OCIP potential savings following firm quotations from OCIP insurers. Each of these scenarios is provided at the conclusion of this report. As pro forma Scenarios 1 - 3 indicate, each pro forma produces some savings under certain loss ratio assumptions while higher loss ratios do not. Note that program administration and program oversight costs add to the overall fixed costs of the program. Although XL Insurance did quote a competitive program with excellent coverage elements, minimal construction volume coupled with rising insurance costs in the 3rd and

4th quarter of 2012 produced rates higher than originally anticipated in the April 2012 feasibility study.

Government Code 4420, the enabling legislation for OCIPs in California, requires a governing body to determine that with good risk management an OCIP will save money. According to the Code:

*“A State or local governmental agency may use owner controlled or wrap up insurance with regard to construction or renovation program for which the total cost exceeds fifty million dollars (\$50,000,000) if the agency meets all of the following conditions and certifies that it has made the following determinations . . . (2) use of owner-controlled or wrap will minimize the expenditure of public funds on the project in conjunction with the exercise of appropriate risk management.”*

Based on the various project financial outcomes presented in Scenarios 1 - 3 of this report, given our assumptions, the pro formas show some savings at lower loss ratios while higher loss ratios indicate the potential for increased costs.

- (2) Promote Small Business Participation: As stated in both the 2010 and 2012 feasibility study, an OCIP usually does promote the use of small business as it eliminates barriers that exist through onerous insurance conditions passed down by prime, first, or second tier contractors. We believe an OCIP would still promote the use of small businesses, as long as “off-site” requirements, if any, were minimal. We do believe; however, this objective can still be met under a traditional insurance approach if the insurance language was carefully crafted to eliminate “pass through” language along with adoption of small business-friendly programs.
- (3) Higher Level of Safety: An OCIP insurer usually imposes higher safety requirements in an OCIP than under a traditional approach. After the marketing results were presented by MWIS; however, we noted no additional requirements from the prospective OCIP insurer than what was already in place by RT. This is primarily due to RT’s commitment to providing the resources an OCIP insurer would require. If a traditional approach were adopted, we would still recommend RT require the prime contractor adopt a drug testing program that calls for pre-employment, post-accident, and “for cause” screening for contractors of all tiers.



**Exhibit 1 - Factors Supporting Use of an OCIP  
 (From April 12, 2012 OCIP Feasibility Study)**

Findings/Conclusions	2012 Study	Implication with Traditional Approach
1. Removes or Reduces the Insurance Barrier for Small and Emerging Contractors	An OCIP would assist contractors to achieve their “good faith effort” to achieve small business participation goals for the construction program.	Barriers could be mitigated by crafting insurance language in the prime contract that disallows passing through onerous insurance requirements to a designated classification of contractors.
2. Sponsor Commitment to Safety Increases Savings Potential	Owner-supplied and contractor-supplied safety professionals to oversee safety and loss control efforts throughout the project.	Sponsor commitment to safety will enhance project delivery and foster positive public relations.
3. Reduced Litigation Potential	Single insurer covering all parties reduces likelihood of litigation.	Traditional approach has multiple insurers with legal representations.
4. Greater Certainty of Protection	High-limit liability insurance program dedicated to the project provides certainty of coverage and greater protection to RT. An OCIP would provide certainty of protection and a greater level of protection to RT than levels of insurance on prior construction projects.	Most contractor and subcontractor policies renew annually and are subject to changes in coverage and levels of protection afforded to RT, especially increasingly restrictive additional insured coverage. Several prospective prime contractors have multi-year insurance programs, thus have “locked in rates” over the life of the construction program.
5. Financing Risk	The 2012 study determined financing risk was minimal; however, should financing delay or cancel the project, RT is still responsible for 75% of the fixed cost premium.	Project disrupting events may be handled slower, given multiple insurers.
6. Schedule Risk	Scheduled risk is less of an obstacle with the aerial structures contract underway and project financing in place.	The traditional approach shifts the financial burden of the cost of insurance to the contractor and subcontractors, subject to appropriate change orders justifying additional insurance costs.
7. Potential for Less Than Optimal Carrier Participation	Carrier participation was more than adequate to foster competition pursuant to the rates available December 2012.	N/A

**Exhibit 2 - Potential Obstacles to an OCIP  
 (From April 12, 2012 OCIP Feasibility Study)**

Findings/Conclusions	2012 Study	Implication with Traditional Approach
1. Staff Administrative Burden and Limited OCIP Experience	RT does not have the staffing resources to oversee the project and does not have prior OCIP experience; therefore, an OCIP will lack resources to provide proper oversight. Pro forma scenarios include \$75,000 program oversight to assist RT manage the program.	RT will not incur \$75,000 in program oversight costs to manage the OCIP. RT will need to monitor certificates of insurance or copies of the prime contractor's general liability and excess liability policies to ensure compliance with insurance specifications throughout the construction project.
2. Limited Economies of Scale	The original estimated construction value of \$110 million projects savings at lower loss ratio levels. The most recent estimated construction value of \$94 million produces savings, however, at lower loss ratio levels. If bids come in under the most recent engineer's estimate, savings is still achieved, however, at even lower loss levels.	Reduced construction value only benefits RT. Contractors will pay premium on actual construction value or field payroll associated with the project.
3. Limited Savings Potential	The reduction in construction value along with rising OCIP costs produces savings possibilities at loss ratios ranging from 0% - 45%	Under some pro forma projections, RT will pay contractors for insurance at a lower cost than what they can purchase it under an OCIP, even with potential contractor mark-ups.

**Final Analysis**

RT's objective of realizing savings is possible at certain loss levels, even as contractor corporate insurance program expenditures are rising. It should be noted; however, some of the pro forma scenarios indicate RT may incur a financial loss if an OCIP is pursued at other loss levels. With adequate safety resources committed to SSCP-2, RT's objective of achieving a higher level of safety scrutiny under an OCIP is questionable.



In the final analysis; however, If RT decided to pursue an OCIP, the following benefits would accrue to the organization:

- (1) Promote the use of small business and disadvantaged contractors, as an OCIP would reduce the barrier that usually exists in an OCIP;
- (2) Reduce cross litigation that would exist under a traditional insurance program with multiple insurers, multiple insurance programs, and multiple attorneys sorting out coverage disputes;
- (3) Afford RT catastrophic levels of insurance that otherwise may be cost prohibitive or unavailable under a traditional approach; and
- (4) Afford RT greater certainty of protection during construction of the SSCP-2 program as the “keeper” of the insurance program throughout the life of the construction program and statue of repose. Changes in anti-indemnity statutes starting in January 2013 could comprise additional insured coverage to RT under the contractor’s corporate insurance programs.
- (5) Gain experience with managing an OCIP in anticipation of utilizing an OCIP on future construction programs.

If RT decides not to pursue an OCIP, we recommend the following:

Recommendation	Detail
1. Proceed with the traditional insurance approach	Analyze and update the current insurance specifications to ensure RT is protected with adequate limits, additional insured coverage, and coverage elements from the prime contractor’s insurance policy.
2. Revise traditional insurance language	To include: (1) Higher limits of general liability; (2) Carefully crafted additional insured language; (3) Contractor purchase of builder’s risk and railroad protective liability; and (4) Requirement to submit full copies of general liability and excess liability policies annually for staff/consultant review.
3. Amend insurance language to make small business friendly	To include: (1) For certified small business contractors as recognized by the State of California, do not require excess liability insurance; (2) Insert “non-pass through” language in the contract language; and (3) Insert a provision that restricts contractors from requiring their subcontractors to evidence no more than \$1,000,000 general liability and auto liability limits.
4. Implement a small business assistance program	To include: (1) Surety assistance program for small business; and (2) Small business networking meetings with primes bidding on the contract to facilitate networking opportunities.

## Pro Forma Assumptions

As part of the OCIP feasibility analysis, eight different scenarios were developed outlining various assumptions and outcomes, given different loss level assumptions. Contractor estimated costs for insurance were calculated at a range of rates, as a percent of \$100 of payroll. Contractor costs were calculated from in a range of \$11.50 - \$14.50 per \$100 of payroll based on historical civil construction costs in California and most recent insurance insurer rate filing increases.

After the final analysis, a rate of \$14.00 per \$100 of payroll was determined to be the most reasonable estimation of contractor cost of insurance for primary general liability and workers' compensation insurance for this construction program during 2013 - 2015. This rate was derived from knowledge of insurance cost for civil construction in California, along with knowledge of recent filings for rate increases by major OCIP insurers in California and general insurance premium escalation anticipated during 2013 – 2015.

The tables following in this report highlight the following.

- ❖ Exhibit 8: Represents the pro forma from the April 12, 2012 Feasibility Study.
- ❖ Scenario 1: Represents the pro forma results for the most recent engineer's estimate of \$94 million, 14% contractor rate, and updated firm quote from XL Insurance of \$12.66.
- ❖ Scenario 2: Represents the pro forma results for the most recent engineer's estimate of \$94 million, along with a 10% contingency for change orders, 14% contractor rate, and updated quote from XL Insurance of \$12.66.
- ❖ Scenario 3: Represents the pro forma results for the most recent engineer's estimated of \$94 million, along with a 10% bid below engineer's estimate, 14% contractor rate, and updated quote from XL Insurance of \$12.66.

Finally, the XL Insurance underwriter assumes expected losses for this program at \$950,000. According to the pro forma results, this actuarial estimation is projected at roughly 50% loss ratio. It is noted; however, well-run OCIPs with high owner commitment and adequate safety resources have produced results at 30% loss levels. This is noteworthy, as most pro forma assumptions do produce potential savings at 30% loss ratio levels.



**Exhibit 8 - Cost Comparison: Traditional vs. OCIP  
 (According to April 12, 2012 Feasibility Study)**

**Assumptions:**

<i>Contractor combined rate:</i>	11.50%	<i>Construction Cost:</i>	\$110,000,000
<i>OCIP combined max rate:</i>	9.00%	<i>Payroll:</i>	\$19,800,000
<i>Loss conversion:</i>	8.00%	<i>Tax rate:</i>	Included in fixed
<i>OCIP fixed Cost:</i>	40.00%		

**Cost Comparison:**

Combined loss ratio	30%	40%	50%	60%	70%
<b>Traditional</b>					
Contractor Cost	2,277,000	2,277,000	2,277,000	2,277,000	2,277,000
Contractor GL hold	227,700	227,700	227,700	227,700	227,700
Contractor net cost	2,049,300	2,049,300	2,049,300	2,049,300	2,049,300
<b>OCIP</b>					
WC/GL Maximum	1,782,000	1,782,000	1,782,000	1,782,000	1,782,000
OCIP Fixed costs	712,800	712,800	712,800	712,800	712,800
Converted Losses	577,368	769,824	962,280	1,154,736	1,069,200
Administration	320,000	320,000	320,000	320,000	320,000
Total OCIP	1,610,168	1,802,624	1,995,080	2,102,000	2,102,000
<b>Savings</b>	<b>439,132</b>	<b>246,676</b>	<b>54,220</b>	<b>(52,700)</b>	<b>(52,700)</b>
As % of CV	0.40%	0.22%	0.05%	-0.05%	-0.05%

**Scenario 1: Traditional vs. OCIP**  
**Revised E/E (no contingency) and 14.00% Contractor Rate**

**Assumptions:**

		<i>Construction</i>	
<i>Contractor combined rate:</i>	14.00%	<i>cost:</i>	94,270,755
<i>OCIP combined max rate:</i>	12.66%	<i>Payroll:</i>	19,184,345
<i>Loss conversion:</i>	7.00%	<i>Tax rate:</i>	Included in fixed
<i>OCIP fixed Cost:</i>	40.00%		

**Cost Comparison:**

Combined loss ratio	30%	40%	50%	60%	70%
<b>Traditional</b>					
Contractor Cost	2,685,808	2,685,808	2,685,808	2,685,808	2,685,808
Contractor GL hold	268,581	268,581	268,581	268,581	268,581
Contractor net cost	2,417,227	2,417,227	2,417,227	2,417,227	2,417,227
<b>OCIP</b>					
WC/GL Maximum	2,614,781	2,614,781	2,614,781	2,614,781	2,614,781
OCIP Fixed costs	964,780	964,780	964,780	964,780	964,780
Converted Losses	839,345	1,119,126	1,398,908	1,678,689	1,765,500
Administration	335,340	335,340	335,340	335,340	335,340
Total OCIP	2,139,465	2,419,246	2,699,028	2,950,121	2,950,121
<b>Savings</b>	<b>277,762</b>	<b>(2,019)</b>	<b>(281,801)</b>	<b>(532,894)</b>	<b>(532,894)</b>
As % of CV	0.24%	-0.02%	-0.30%	-0.56%	-0.56%

**Scenario 2: Traditional vs. OCIP**  
**Revised E/E (with 10% contingency) and 14.00% Contractor Rate**

**Assumptions:**

		<i>Construction</i>	
<i>Contractor combined rate:</i>	14.00%	<i>cost:</i>	103,697,831
<i>OCIP combined max rate:</i>	12.66%	<i>Payroll:</i>	21,102,780
<i>Loss conversion:</i>	7.00%	<i>Tax rate:</i>	Included in fixed
<i>OCIP fixed Cost:</i>	40.00%		

**Cost Comparison:**

Combined loss ratio	30%	40%	50%	60%	70%
<b>Traditional</b>					
Contractor Cost	2,954,389	2,954,389	2,954,389	2,954,389	2,954,389
Contractor GL hold	295,439	295,439	295,439	295,439	295,439
Contractor net cost	2,658,950	2,658,950	2,658,950	2,658,950	2,658,950
<b>OCIP</b>					
WC/GL Maximum	2,711,259	2,711,259	2,711,259	2,711,259	2,711,259
OCIP Fixed costs	1,061,259	1,061,259	1,061,259	1,061,259	1,061,259
Converted Losses	870,314	1,160,419	1,450,524	1,740,628	1,765,500
Administration	335,340	335,340	335,340	335,340	335,340
Total OCIP	2,266,913	2,557,018	2,847,123	3,046,599	3,046,599
<b>Savings</b>	<b>392,037</b>	<b>101,932</b>	<b>(188,173)</b>	<b>(387,649)</b>	<b>(387,649)</b>
As % of CV	0.38%	0.09%	-0.18%	-0.37%	-0.37%



**Scenario 3: Traditional vs. OCIP**  
**Revised E/E and 10% Bid Below E/E with 14.00% Contractor Rate**

**Assumptions:**

		<i>Construction</i>	
<i>Contractor combined rate:</i>	14.00%	<i>cost:</i>	84,843,680
<i>OCIP combined max rate:</i>	12.66%	<i>Payroll:</i>	17,265,911
<i>Loss conversion:</i>	7.00%	<i>Tax rate:</i>	Included in fixed
<i>OCIP fixed Cost:</i>	40.00%		

**Cost Comparison:**

Combined loss ratio	30%	40%	50%	60%	70%
<b>Traditional</b>					
Contractor Cost	2,417,228	2,417,228	2,417,228	2,417,228	2,417,228
Contractor GL hold	241,723	241,723	241,723	241,723	241,723
Contractor net cost	2,175,505	2,175,505	2,175,505	2,175,505	2,175,505
<b>OCIP</b>					
WC/GL Maximum	2,518,303	2,518,303	2,518,303	2,518,303	2,518,303
OCIP Fixed costs	868,303	868,303	868,303	868,303	868,303
Converted Losses	808,375	1,077,834	1,347,292	1,616,751	1,765,500
Administration	335,340	335,340	335,340	335,340	335,340
Total OCIP	2,012,018	2,281,477	2,550,935	2,820,394	2,853,643
<b>Savings</b>	<b>163,487</b>	<b>(105,972)</b>	<b>(375,430)</b>	<b>(644,889)</b>	<b>(678,138)</b>
As % of CV	0.19%	-0.012%	-0.024%	-0.076%	-0.080%



RESOLUTION NO. 13-01-\_\_\_\_\_

Adopted by the Board of Directors of the Sacramento Regional Transit District on this date:

January 14, 2013

**APPROVING ADOPTION AND IMPLEMENTATION OF AN OWNER CONTROLLED INSURANCE PROGRAM (OCIP) FOR THE SOUTH SACRAMENTO CORRIDOR PHASE 2 PROJECT**

WHEREAS, the construction costs for the South Sacramento Corridor Phase 2 Project (SSCP2) will exceed \$50,000,000; and

WHEREAS, the Board finds that employing an Owner Controlled Insurance Program (OCIP) for the construction of the South Sacramento Corridor Phase 2 Project (SSCP2) will minimize the expenditure of public funds as required by California Government Code 4420(b)(2).

NOW THEREFORE, BE IT HEREBY RESOLVED BY THE BOARD OF DIRECTORS OF THE SACRAMENTO REGIONAL TRANSIT DISTRICT AS FOLLOWS:

THAT, the Board finds that using an OCIP in the construction of the SSCP2 project meets the statutory requirements of California Government Code 4420.

THAT, the use of an OCIP in the construction of the SSCP2 project is hereby approved.

THAT, the General Manager/CEO is hereby directed and authorized to take any actions necessary to implement an OCIP for the SSCP2 project and to execute any forms, applications, and agreements necessary to bind OCIP coverage with the selected insurer and the selected SSCP2 contractor and its subcontractors.

\_\_\_\_\_  
BONNIE PANNELL, Chair

A T T E S T:

MICHAEL R. WILEY, Secretary

By: \_\_\_\_\_  
Cindy Brooks, Assistant Secretary