

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

April 28, 1998

To: Board of Directors (Budget and Finance Committee--Information)
 (Engineering and Operations Committee--Information)
 (Legal and Claims Committee--Information)

From: *for* General Manager

Edward S. Meier III

Submitted by: Chief Engineer

Ray Agee

Subject: *for* Fourth Annual Stewardship Report on Eastside Reservoir Project's Owner-Controlled Insurance Program (OCIP)

RECOMMENDATION(S)

For information only.

EXECUTIVE SUMMARY

In November 1993, your Board approved the creation of an Owner Controlled Insurance Program (OCIP) for the Eastside Reservoir Project (ESRP). In February 1994, Sedgwick/Dickerson (Sedgwick) was named the OCIP Administrator; and in August 1994, Hartford Insurance company was selected as the primary OCIP insurance carrier. Annually, Sedgwick presents a stewardship report, and is the author of the Fourth Annual Stewardship Report attached to this board letter. The statistics presented in the report provide the current status of the program.

The OCIP is designed to support the ESRP and provides a comprehensive safety, claims management and insurance program for the entire construction period. Use of the OCIP for the Eastside Reservoir Project has reduced Metropolitan's total construction costs by \$22.2 million. This reduction in cost results from instituting the OCIP costs versus the cumulative costs of each contractor obtaining insurance coverage. Additional savings can be achieved if the project meets the loss ratio of 55% (losses as a percentage of the total paid premium). As of this report, the loss ratio as a portion of expected paid premium is 29.8%. Based upon the current information, the project loss ratio is realistic.

DETAILED REPORT

Under an Owner Controlled Insurance Program for large construction projects, the owner procures certain insurance coverages for itself, contractors and subcontractors of any tier, when performing job site operations. An OCIP replaces the traditional approach wherein

the owner requires each contractor to provide workers' compensation, liability and builders risk insurance. One of the benefits of an OCIP is that the owner can potentially minimize losses and, in turn, lower construction costs. The owner further benefits by receiving insurance refunds for good claims experience, and by maintaining control over the purchase and limits of insurance.

An overview of Metropolitan's OCIP is provided in the accompanying Stewardship Report in the Executive Summary. Specific factors of the OCIP which yield savings to Metropolitan, and are contained in the Stewardship Report, include the following:

1. Based on 1994 insurance rates for contractors, the preliminary OCIP projected an \$11.25 million cost savings over traditional insurance for the period 1994-2000. (Exhibit 1, page 3).
2. Following Board approval of OCIP and the project labor agreement, the final negotiated OCIP resulted in a total savings of \$22.2 million over the cost of traditional insurance (Exhibit 2, page 4).
3. The ESRP accident rate, as represented by the lost time incident rate of 2.91, (number of injuries involving days away from work X 200,000/total hours worked) continues to be below the national average of 3.90 (Exhibit 3, page 5).
4. The current total incurred loss ratio as a portion of the expected paid premium is 29.8%, well below the OCIP insurance company forecast of 55%, and the project target of 40% (Exhibit 4, page 6). Exhibit 12, page 15, displays the expected losses at 55% and 40% (\$14.9 - \$10.9 million) respectively. The range of claims dividend would be the difference of actual losses from the minimum premium deposit of \$27.2 million. If the actual losses equal expected losses than Metropolitan can anticipate a claims dividend return ranging from \$12 -17 million after the project is completed.
5. The success of the workers' compensation alternative dispute resolution (ADR) process and emphasis on project safety is reflected in a reduced disability rate. The disability rate is determined by the percentage of claims in which a worker loses time from work as opposed to a claim where there is medical treatment only. This project is experiencing a 30% disability rate in comparison to the statewide disability rate of 47% for construction project claims. More details regarding the nature of injuries are presented in Exhibit 9 and 9A, page 12.
6. The project experience of other California Public Agency OCIPs is presented in Exhibit 13, page 20, and will be updated annually. Recognizing that Metropolitan's project is considerably larger and differs from the other projects, this information is only to note the increasing use of OCIPs. None of the referenced agencies experienced losses equal to or greater than the insurance premiums paid. The loss ratios range from 39% for Contra Costa Water Authority Reservoir Dam, to 65% for Bay Area Rapid Transit Extensions.

There is increasing evidence that other public agencies are realizing benefits like those experienced by Metropolitan from the use of "wrap-ups" or OCIPs. The U.S. General Services Administration in Washington, D.C., in December 1997, issued a "Wrap-Up Insurance Study," recommending that the federal government institute procedures to expand the use of wrap-up insurance or OCIPs because of "reduced losses, and, in turn, lower construction costs." Examples of other public agencies using "wrap-ups" or OCIPs for major construction projects include the City of San Diego, City of Chicago, Massachusetts Water Resources Authority, Tri-County Metropolitan Transportation District of Oregon and the State of Utah. The State of Utah is proposing to use a rolling wrap-up program for all state construction projects (estimated to be \$1 billion).

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Attachment

Sedgwick Fourth Annual Stewardship Report
Eastside Reservoir Project's Owner-Controlled Insurance Program (OCIP)

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EXECUTIVE SUMMARY

We have elected to repeat the background of the current program in order to ensure a common understanding of the basis upon which the Board made it's decision in November 1993.

Overview of O.C.I.P.

An Owner Controlled Insurance Program (O.C.I.P.), or its other descriptor, "Wrap-Up" Insurance, is an insurance program designed for large construction projects. Under such plans, the owner procures certain insurance coverages for all contractors and subcontractors, performing job site operations. The O.C.I.P. replaces the traditional approach whereby owners require contractors to provide Workers' Compensation, General Liability and Property insurance.

An O.C.I.P. presents advantages over traditional construction insurance and loss control procedures for two reasons: the economies of scale produced by centralizing the purchase of insurance coverage, and the streamlining of project management by coordinating a number of on-site functions (loss control, safety, record keeping etc.) under a single authority. The key to the operation and success of an O.C.I.P. is control -- control of essential project insurance lines (i.e., workers compensation, general liability) control of site safety and loss control programs by a single project manager.

Characteristics of an O.C.I.P. include:

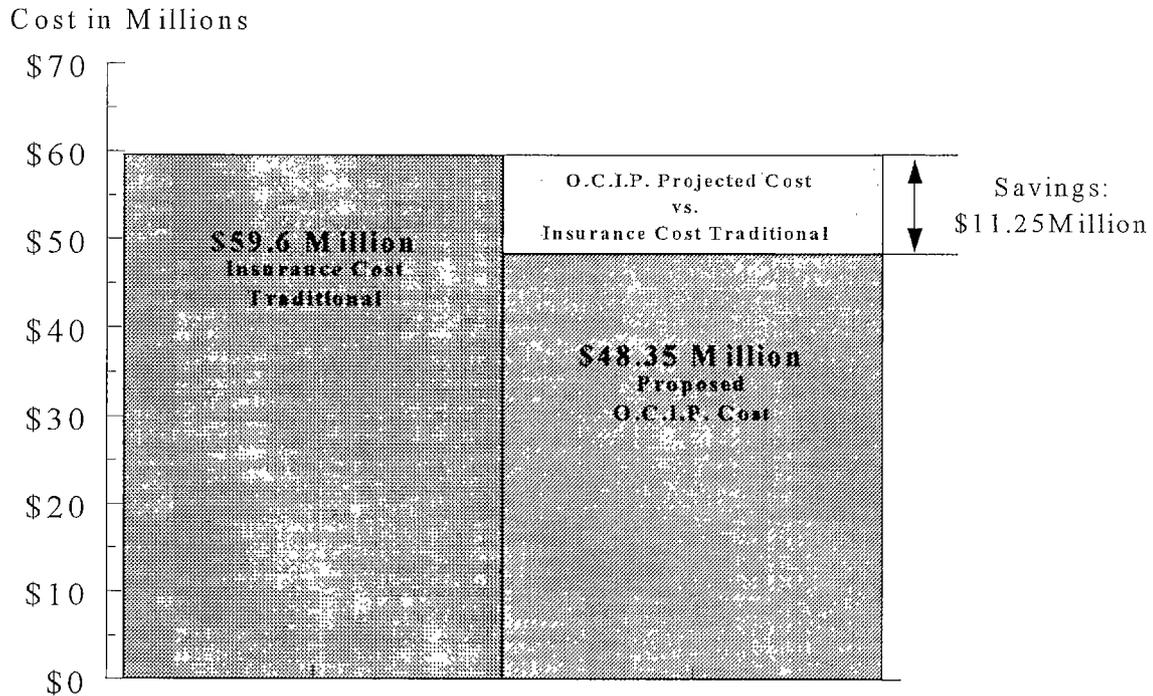
- Usually confined to a single location or a definitive project.
- Generally in force for a finite number of years (3-5 years actual construction period).
- Control of all contractors and subcontractors in a single insurance program managed by the owner of the project.
- Projects with large financial expenditures (\$200 + million) and with large labor components (25/30%).
- Project manager (owner) designs and administers a stringent loss control program.

O.C.I.P update:

In November 1993, the Board authorized the creation of an O.C.I.P for contractors and their employees working at the Eastside Reservoir Project site. The Board action was based on an estimated cost savings of \$11.3 million from difference in cost of a traditional insurance program and proposed O.C.I.P program which is illustrated in the Exhibits #1 below.

Exhibit #1
Cost Comparison

O.C.I.P. vs. Traditional Insurance Program*
Period 1994 to 2000
Project Cost
(55% Loss Ratio)

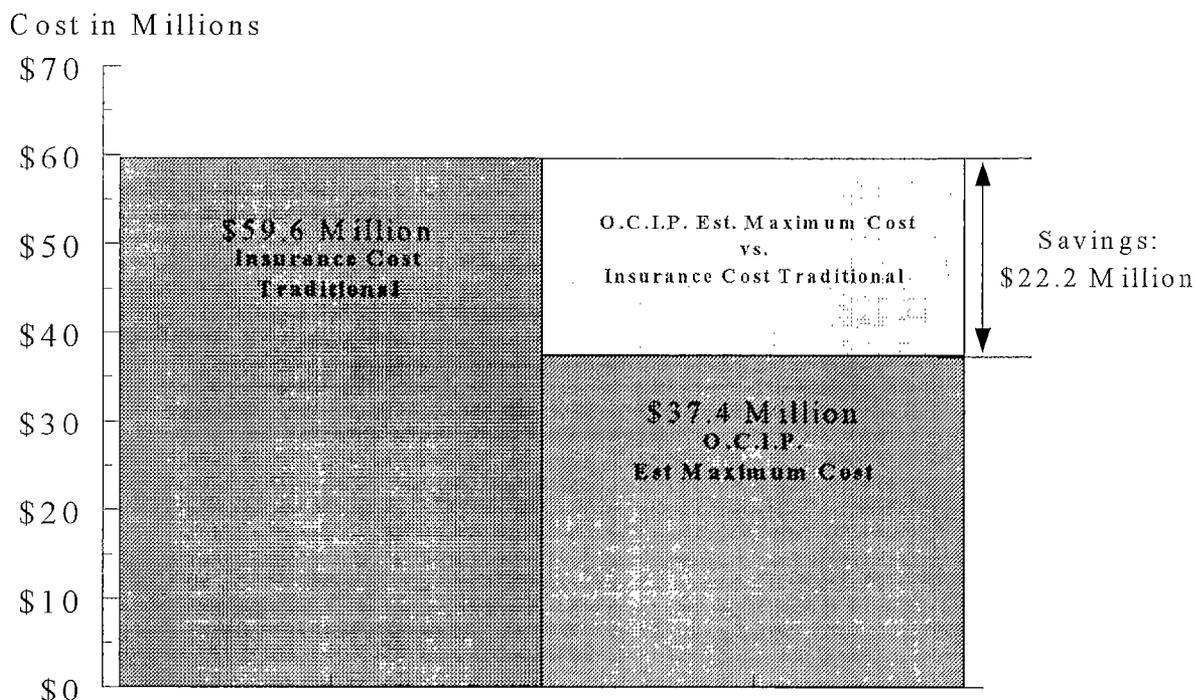


* Traditional insurance program represents the estimated cost of insurance for contractors based upon 1994 rates and paid by the owner of the project as part of the cost of the bid.

We, Sedgwick of California and our Joint Venture Partner, Dickerson Insurance Services, as the Metropolitan Water District insurance broker negotiated an insurance program with the Hartford Insurance Company. The Hartford Program totaled \$37.4 million, 37% (\$22.2 million) below the Traditional insurance premium estimate of \$59.6 million. In addition, the potential for added savings based upon loss sensitivity and reduced contractor bids exist for the Eastside Reservoir Project. Below is Exhibit #2 of the Hartford Insurance vs. Traditional Insurance Program.

Exhibit #2
Cost Comparison

Traditional Insurance Program vs. Hartford Insurance Program
Period 1994 to 2000
Project Cost
(55% Loss Ratio)

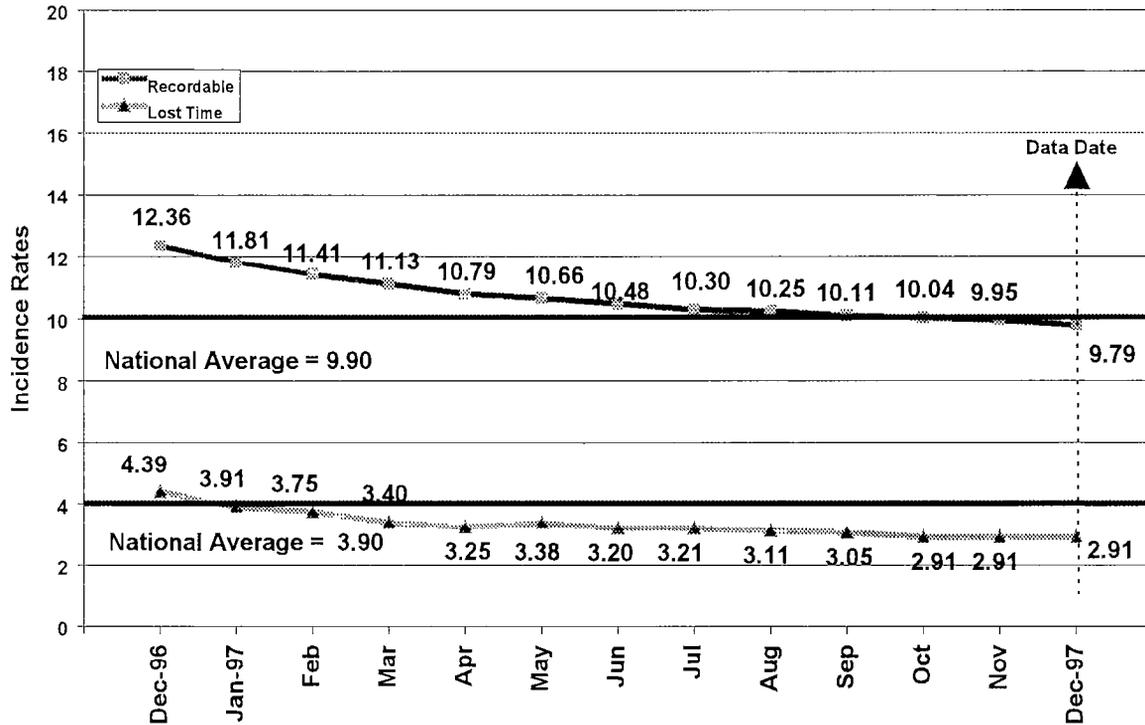


Eastside Reservoir Project Major Accomplishments:

- Disability represented 30% of all claims versus statewide average of 47% of all construction claims.
- Accident trend analysis loss time and recordables incident rates are below the national average (see exhibit #3).
- Additional savings (via return premium) is available should losses at completion of project be equal to or less than \$14.9 million.
- First project to institute Alternative Dispute Resolution program (ADR).
- Eastside Reservoir will be used as a benchmark for future programs.
- Project labor agreement incorporated the State of California workers' compensation program changes that allowed for an ADR and created a positive liaison between labor, owner and insurance carrier.

Exhibit #3

ESRP Accident Trend Analysis



Loss Ratio: Defined as total incurred losses (actual loss dollars paid and dollars entrusted to cover losses that have occurred and not settled) divided by earned premiums. There exist a potential return of a portion of the total workers' compensation premium paid should the project's losses remain below 55% (\$14,900,00) of the total estimated workers' compensation paid premium (\$27.2m). Below is a recap of the total program loss ratio for the 1994 to 1997 policy period. The incurred losses vs. traditional insurance cost is portrayed against illustrations in the original Board letter that authorized the project and which resulted in a negotiated placement of the insurance that saved \$22.2 million. Also, the incurred losses vs. premium is based upon actual premiums paid to date.

**Eastside Reservoir Project-To-Date Results
1994 - 1997
Incurred Losses vs. Traditional Obligation***

If Metropolitan had used the contractors' traditional insurance program for this project, at the end of three years, Metropolitan's construction cost would have increased by \$29.8. Exhibit 4 shows what the loss ratio would be using current loss costs and the contractors' traditional premium costs for the first three years. Note that the lower loss ratio is a function of the higher premium deposit and any refunds for good claims experience would be returned to the contractors, not to Metropolitan.

Exhibit 4

- **Total losses incurred** are actual loss dollars paid and dollars entrusted to cover losses that have occurred and not settled.
- Total losses incurred all cost elements \$5.6 million divided by prorated first 3 years contractors' traditional premium of \$29.8 equal 18.8%

$\frac{\$ 5.6 \text{ million}}{\$29.8 \text{ million} *} = 18.8\%$
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* Premiums for first 3 years of project

With the use of a OCIP, Metropolitan reduced construction costs by \$11.0 million and paid \$18.8 million for the same period (Exhibit 5). Note: The refunds for good claims experience will be returned to Metropolitan.

Exhibit 5

**Incurred Losses vs. Premium Paid Obligation
1994 - 1997**

- Total losses incurred all cost elements \$5.6 million divided by prorated first 3 years of Hartford's premium and Sedgwick administrative fees of \$18.8 equal 29.8%.

$\frac{\$ 5.6 \text{ million}}{\$18.8 \text{ million} *} = 29.8\%$
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* Premiums for first 3 years of project

*This page revised after issuance of report

II. RECAP OF SERVICES, SIGNIFICANT EVENTS and FIGURES FOR 1997

A. Administration:

Management of the O.C.I.P program for the Eastside Reservoir Project are essential to a safe, productive and profitable project.

Administrative management activities which consist of the following:

- Enhanced communication through various safety and management meetings with Metropolitan's staff and contractors of all tiers associated with the project.
- In depth analysis of incidences and trends that impact the project and develop action plan to improve results.
- Clear and concise safe work practices guidelines and procedures for contractors of all tier and vendors to follow while on the project site.
- Track key indicators such as payrolls, contractors deductibles and claims through our Construction Project Risk Information Management System (COPRIMS) to identify trends which may impact project. Most importantly, use the information to make the appropriate adjustments to areas in need of improvement.
- Continued self evaluation with input from Metropolitan Water District management and staff.

Major accomplishments:

Marketing and administrative activities:

- Addressed the insurance coverage issue of Earthquake vs. Earth movement, Metropolitan legal department working on amending construction contract language. Currently the Hartford's policy excludes Earth movement.
- Validated the information in the second State of California Division of Workers' Compensation Carve Out Report for calendar year 1996.
- Compared Eastside Reservoir Project cost and losses against other O.C.I.P Projects. The projects varied in nature and the loss ratio ranges from 30% to 66%. The information was derived via telephone. It was not subject to audit nor was it validated by the inquirer.
- Provided The Hartford with reforecasted estimated construction payroll and requested that they make appropriate premium adjustments to reflect the new exposure base.
- Converted 1997-98 renewal insurance premium payments from annual to quarterly installments.
- Reconciled the COPRIMS contractors reported payroll figures. The adjustments resulted in an increase in reported payroll which increased the program premiums and lowered the loss ratio.

- O.C.I.P. team discussed the project's loss control and safety issues in the following monthly management activities:
 - Eastside Reservoir PMPM (Project Management Progress Meeting)
 - Contractors Joint Safety Committee Meeting
 - RE (Resident Engineer) Meeting
 - Contractors Tool Box meeting
 - Hartford's Quarterly Claims review meeting
 - Metropolitan Risk Management Administration Meeting

B. Safety and Loss Control:

Management of the resources within the control of the O.C.I.P. team will have a significant impact on the quality of safety, goodwill with contractors, and overall profitability of the project.

Safety and Loss Control management activities which consist of the following:

- Seasonal Climatic Preparation - We anticipated an increase in hazards as a result of major storms due to the global El Nino effect. The O.C.I.P. team prepared an action plan which included a survey and assessment of the conditions at the various job sites. Our report and recommendations are presented to MWD resident engineer and contractor's safety representatives to implement.
- Improved our safety and loss control program through better engineering and planning to reduce exposures to losses. Maintain visibility and accessibility to MWD management, vendors, and contractors of all tiers.
- Conducted various training and orientation sessions for contractors to reinforce safety standards and safe work practices.
- Loss Analysis - specifically examine the type of injuries suffered by the workers and surrounding community. Use the information to develop appropriate action plans to decrease the number of losses.
- Hazard Analysis - used the insight and expertise of our O.C.I.P. safety team to review blasting and tunneling guidelines and procedures.

Major Accomplishments:

- The O.C.I.P. safety team through engineering and planning has helped decrease the accident recordable incident rate from a high of 12.36 in December 1996 (2.46 points above the national average of 9.90) to a low of 9.79 in December 1997 (.11 below the national average of 9.90). In addition, the lost time incident rate was decreased from a high of 4.39 in December 1996 (.49 points above the national average of 3.90) to a low of 2.91 in December 1997 (.99 points below the national average of 3.90).
Loss Analysis - Analyzed the type of injuries suffered by workers and community. Workers were experiencing a high number of work related

strains and contusions. The O.C.I.P team recognized that many of the workers were working on steep slopes and some carried heavy items up the slope. The safety team recommended the following corrective action:

1. Installation of cables through stakes as grab holds.
2. Workers stretch and flex to loosen up limbs and joints.
3. Winches be use to haul equipment and materials up slopes.
4. Workers withdraw from dragging equipment and materials up slopes.

- Added safety manager.
- Added safety representative.

C. **Claims Management:**

Professional claims handling is an important service to the success of the project.

Claims management activities which consist of the following:

- O.C.I.P Ombudsperson made contact with all injured workers and informed them of claims policies and procedures. In addition, we followed up with injured workers regarding their current medical status, temporary disability checks, requests for mileage reimbursement, provided assistance, and answered all appropriate questions.
- O.C.I.P team conducted review of the Workers' Compensation and General Liability claims files with MWD and The Hartford.
- O.C.I.P team, along with MWD and contractors' safety representative, investigated all new claims.
- O.C.I.P participation in arbitration and mediation cases.

Major Accomplishments:

- First project to institute ADR program in the state.
- Opened a nurse station to provide on site care to injured workers.
- Added second shift at the nurse station to provide drug testing and care to contractors that operate multiple shifts.
- Approved additional medical facilities in the area to treat injured workers.
- ADR major accomplishments include:
 - Established all procedures to operate under Labor Code 3201.5. These had not been set up by the State. This included an ADR Procedure Manual, writing all the pamphlets required under the Labor Code, and designing the Employee Claim Form.
 - Developed and installed a Procedure Manual for Mediators/Arbitrators
 - Conducted training sessions for Mediators/Arbitrators.
 - Identified and established an approved list of medical providers, Qualified Medical Examiners and Vocational counselors. Medical providers included industrial clinics, specialists and hospitals.

- 18 cases have been set for either Mediation or Arbitration. All the sessions have been scheduled and arranged for all attending parties. The ombudsperson participated in each session.
18 mediation and Arbitration cases
25 cases settled with PD
Largest settlement \$59,749

D. Claims Activity/Loss Ratios/Large Losses:

Loss ratios: The Eastside Reservoir Project's combined workers' compensation and general liability loss ratio based on earned and scheduled premiums paid and total incurred losses equal 54% (see Exhibit #6 below). The combined loss ratio based on earned and scheduled premiums paid and actual losses paid equal 20% (see Exhibit #7). The general liability losses are less than the \$500,000 Self Insured Retention limit (SIR).

There is a huge disparity between the total incurred and actual paid losses amount. The Hartford's reserve practices is being reviewed to assure allowances are made for the ADR program. In addition, claims must be settled and closed as soon as practical.

Exhibit #6

**Loss Ratio based on Total Incurred Losses
Project-To-Date
1994 to 1997**

Line of Insurance	Earned Premium*	Total incurred Losses	Loss Ratio
Work Comp project to date	\$10,399,959	\$5,578,417	54%
Gen. Liability project to date	\$836,281 \$500,000 SIR	\$ 0 (1)	0%
Combined	\$11,236,240	\$5,578,417	50%

***The premiums used in the calculation are the "scheduled paid and audited premiums".**

Footnote: (1) total incurred losses are less than the \$500,000 self insured retention (SIR). In addition, they do not include claims contained in the SIR.

Exhibit #7
Loss Ratio based on Actual Paid Losses
Project-To-Date
1994 - 1997

Line of Insurance	Earned Premium*	Actual Paid Losses	Loss Ratio
Work Comp project to date	\$10,399,959	\$2,060,162	20%
Gen. Liability project to date	\$836,281 \$500,000 SIR	\$ 0 (1)	0%
Combined	\$11,236,240	\$2,204,880	20%

*The premiums used in the calculation are the "scheduled paid and audited premiums".

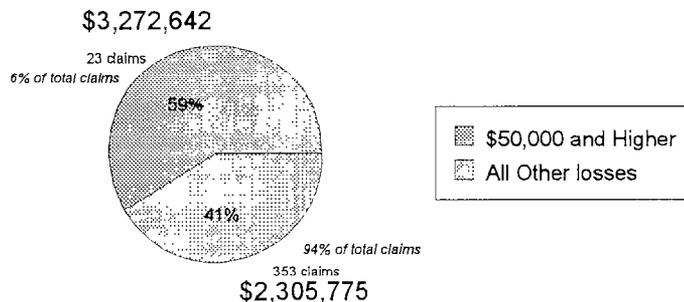
Footnote: (1) actual paid losses are less than the \$500,000 self insured retention (SIR). In addition, they do not include claims contained in the SIR.

- Large Loss:** The project's financial exposure as well as the largest portion insurance of premium is tied to workers' compensation insurance. Project year to date total incurred losses estimated at \$50,000 and higher have accounted for 59% of the paid losses, but represent only 6% (23) of the reported claims (see Exhibit #8).

Exhibit #8

Workers' Compensation Claims \$50,000 and Higher

Percentage of Total Incurred
1994-1997



Total Incurred: \$5,578,417

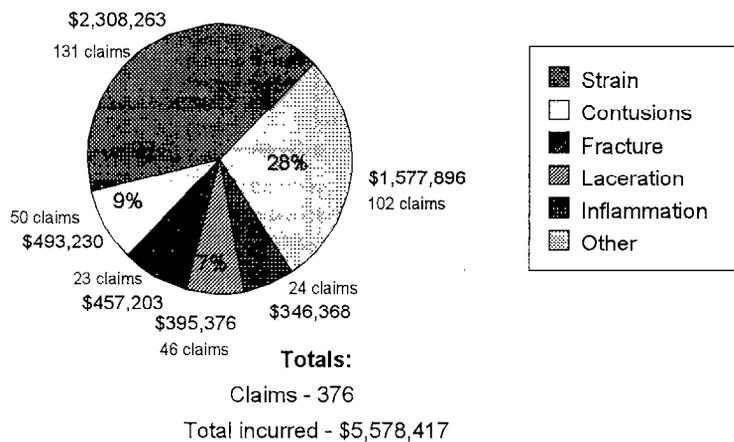
Claims: 376

Nature of Injuries: Strains represents the largest category of injuries suffered by workers. It is inconclusive whether or not the losses are caused by lack of proper techniques with respect to lifting, pulling, carrying, physical condition of workers, age of workers, and/or steep slopes at the project. Investigation of the nature of injuries by the O.C.I.P. team is ongoing. The O.C.I.P. team realized that the steep slopes had an impact on the type of injuries suffered by the workers and have recommended improvements to decrease the losses. Listed below is a chart of the nature of injuries suffered by workers (Exhibit #9A and 9).

Exhibit #9

Workers' Compensation Nature of Injuries

1994-1997



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Exhibit #9A

Nature of Injuries Suffered by the workers			
Nature of Injury	# Claims	% of incurred	Total incurred
Strain	131	41	\$2,308,263
Contusion	50	10	\$493,230
Fracture	23	9	\$457,203
Laceration	46	8	\$395,376
Inflammation	24	7	\$346,368
Other	102	28	\$1,577,896*
Total	376	100	\$5,578,417

* 2 claims represented 61% (\$963,130) of the total incurred losses.

E. Risk Control Activities:

We emphasized teamwork between all the colleagues (MWD, contractors of all tiers and O.C.I.P. team) to yield a successful project. Most important, the O.C.I.P. team continued to be a safety and loss control resource for all parties associated with the project.

Safety and Loss Control Activities:

- Implemented a proactive safety and loss control program whereby we identify potential hazards and develop appropriate action plans to improve safety.
- Maintain visibility and accessibility to all colleagues, vendors, and contractors of all tiers.
- Conducted various training and new contractors safety orientation sessions. Provided safety manuals, discussed safety standards and safe work practices.
- Loss Analysis - specifically examined the type of injuries suffered by the workers and nearby community. Used the information to develop appropriate action plans to decrease number of losses.
- Seasonal Climatic Preparation - use the insight and expertise of our O.C.I.P. safety team to address adverse seasonal conditions.
- Developed and distributed project safety manual.

F. 1997 Insurance/Risk Management Expense:**1. Broker/Administrative Cost by Year** (see Exhibit #10 below)

Exhibit #10

Service Fees Annual Recap

Policy Year	Amount Paid
1994	\$379,289
1995	\$405,268
1996	\$528,504
1997	\$749,059 *
Total	\$2,062,120

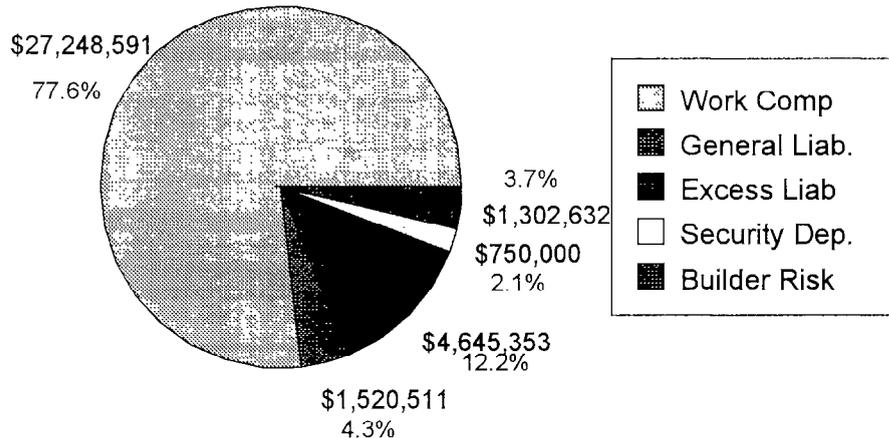
* Includes cost for opening first aid and 2 nurses.

2. Premiums Paid (Fixed premiums and deposits subject to audit):

- Hartford's Program premiums by line of insurance Exhibit #11 (note: The Hartford is reviewing program premiums).

Exhibit #11

Eastside Reservoir Project Sold Program Premiums 1994-2000



Total premiums - \$35,466,984

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G. Workers' Compensation Loss Summary

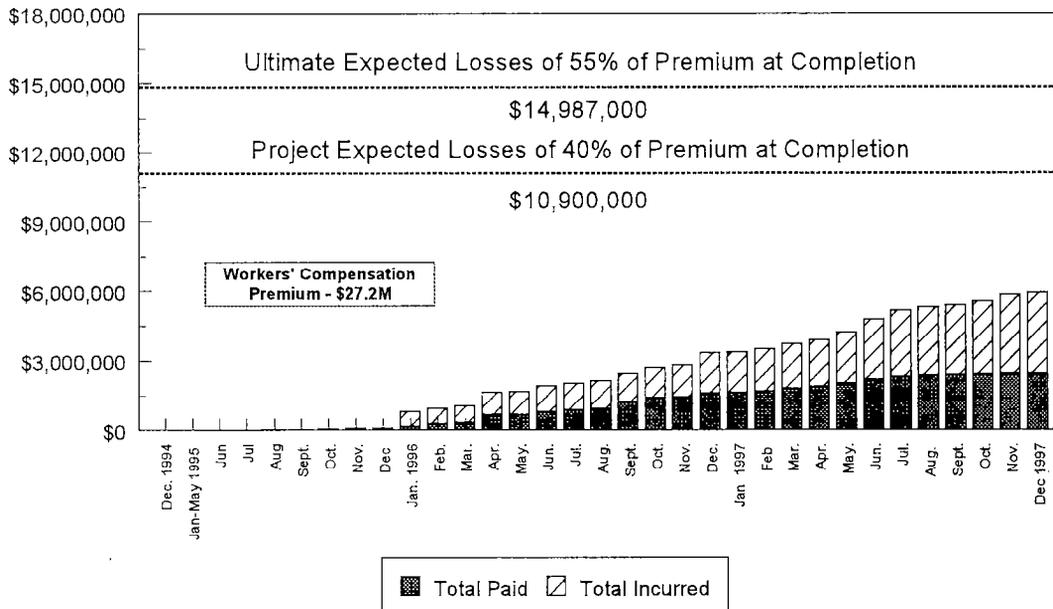
Eastside Reservoir Project Workers' Compensation Loss Summary Project -to-date

The largest exposure base and insurance premium cost for the project is workers' compensation. Based on the total workers' compensation premium of \$27,248,591 for the complete project the ultimate expected losses equal \$14,987,000 (based on 55% of the total premium). The MWD/O.C.I.P. team expect the actual incurred losses to be \$10,900,00 (based on 40% of the total premium).

At the project's mid point the total incurred losses equal \$5,578,417 of which \$2,060,162 is total paid. See Exhibit #12. Most importantly, at the completion of the project there would be additional saving if premiums and losses remain constant (\$27.2m and \$14.9m respectively) of approximately \$6.8 million. Our goal is to finish the project with a favorable workers' compensation loss ratio and earn the additional saving for the MWD.

Exhibit #12

**Eastside Reservoir Project's Workers' Compensation
Loss Summary - Project Year-to-Date
As of December 31, 1997**



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III. PLANS FOR 1997-1998

A. Market Trends

As in the 1996-1997 period, the market place for the major lines of O.C.I.P.'s, Workers' Compensation and General Liability continues to be competitive. Despite continued merger and consolidation activity, there is still abundant capacity. Insurance markets will intensify their efforts to identify and target particular customer segments in order to dominate with improved products and services rather than concentrate on market share.

We have asked Hartford to reevaluate the impact current market conditions and recalculated construction cost estimates would have on the project premiums. We plan to meet in early 1998 to discuss these issues.

B. Market Security

Sedgwick of California, Inc. as part of the Sedgwick Group plc, participates in a group effort to monitor information and financial results of markets in which client's insurance is placed. It is vital that the placement involves underwriting companies which can demonstrate the financial capability to service the client's needs.

In most jurisdictions, particularly in the United States, the insurer markets are subject to the filings of financial data at least annually with state insurance regulators, who have the prime responsibility to determine the solvency of the companies permitted or licensed to write insurance. In addition, the regulator's audit powers allow for the examination of records that are not part of publicly released statements or documents. Private rating organizations exist for the purpose of evaluating the size and financial strength of insurance companies operating in the United States. The oldest and best known company for this purpose is A.M. Best & Co., which is not affiliated with any other insurance organization and rates over 1700 property and casualty companies and a similar number of life insurance companies.

However, the existence of regulatory agencies and private rating organizations hasn't been sufficient.

Security of Market at Sedgwick

Sedgwick recognized the need to supplement regulatory and other outside sources for monitoring the financial resources of insurance markets. In 1982, it established a security function to monitor markets. This included involvement of senior management, operating personnel and staff for this purpose. This was integrated as a similar function at Sedgwick when the companies merged in 1985.

To date, the Sedgwick North America Security Function monitors and reviews the financial results on insurance markets regularly used in North America (U.S. and Canada) on client business. It provides communication of important developments on security matter to the offices and access to conditions involving markets outside North America, via lineage with a similar group function in London.

Conclusion

The security work of the Sedgwick Group adds a further dimension to that which is available through the regulatory process and other sources. However, the analysis and review process are largely dependent upon publicly released financial information and the complexities of financial statements, which must be made in compliance with regulatory convention requirements and generally accepted accounting procedures. The financial accounts may be impacted by non-public

information or future events, outside the control of the company, which may give rise to significant change in the value of assets held or in the company's estimate of certain future liabilities.

While we attempt to make a reasonable and prudent effort in regard to market security, we cannot guarantee the solvency of any market, either now or in the future. We welcome any questions clients may have concerning the markets utilized on their behalf and encourage inquiries prior to market selection by the client.

C. Major Activities/Goals

Continue to meet or exceed all scope of services.

Continue to administer the O.C.I.P. to achieve maximum savings and effectiveness of the Insurance, Safety and Loss Control Programs on the project.

Continue development and management of the ADR program.

D. Changes Anticipated in Insurance and Risk Management Expense:

- We anticipate a decrease in the workers' compensation premium attributed to lower payroll construction cost (estimated payroll cost decreased from \$328,000,000 to \$275,000,000). Hartford is working on premium revisions based on the revised payroll figures of the 1997-98 policy year.

E. 1998 Loss Projection:

- In 1996 the project experienced loss severity claims and in 1997 loss frequency claims. Since 1997 was a peak year with respect to number of workers on the project, we anticipate a decrease in losses due to workers following safe work practice guidelines and a slight decrease in the number of workers on the project. The combination of safe work practices, less workers, and the decreasing accident trend should decrease total losses incurred in 1998.

IV. OUTSTANDING/ANTICIPATED PROBLEMS & RECOMMENDATIONS:

- Review the need for additional safety personnel and submit a report to MWD Risk Management.

- Routinely meet with the project security service and address issues related to safety.
- Continue to evaluate the nature of claims suffered by workers and recommend appropriate action to decrease loss frequency.
- Finalize contractors' deductible reimbursement program.
- Emphasize to all contractors during various safety meetings and training sessions the importance of promptly reporting all claims.
- Continue to work with the Hartford on prompt settlement and closure of outstanding claims.

V. APPENDIX:

A. Current Public Agencies Project O.C.I.P.'s

The four projects listed below are a sample of other public agencies major projects. All are different in nature, but they illustrate the experience of other agencies. The interim loss ratio's range from 30% to 66% .

The numbers furnished were derived via oral phone communiqué and are meant to be illustrative. They have not been subjected to audit or validation on the part of the inquirer
(see Exhibit #13 below).

Exhibit #13

CURRENT PUBLIC AGENCY O.C.I.P.s IN CALIFORNIA					
Project Name	Construction Value	Duration	Completion Date	WC & GL Prem YTD ending 1997	Total Incurred Losses
City of San Diego Municipal Waste Water Development	\$771,907,623	6 years	7/00	\$ 9,342,757	\$4,747,160
Los Angeles Harbor Authority WorldPort LA	\$573,979,437	3 years	12/97	\$ 12,756,609	\$5,932,044

Bay Area					
Rapid Transit Extensions	\$617,965,419	6 years	5/97	\$ 13,579,642	\$8,959,554
Contra Costa Water Authority Reservoir Dam	\$205,306,059	4 years	6/98	\$ 7,144,363	\$2,769,437

B. Policy Register (see Exhibit #14)

**POLICY REGISTER
EASTSIDE RESERVOIR PROJECT**

<p>DESCRIPTON - Two earth/rock fill dams, 4.5 mile apart, within the Domenigoni and Diamond Valleys, plus a third, earth/rock fill saddle dam at the low point in the north rim.</p>			
<p>DURATION - February 1994 - February 1997</p>			
COVERAGES	POLICY PERIOD	POLICY NUMBER	COMPANY
* Workers Compensation	12-01-96/12-01-97	WBRQ11001	Hartford
General Liability	12-01-96/12-01-97	CSEQW1100	Hartford
Builders'Risk	03-20-95/03-20-98	MSJZ4516	Hartford
Excess Liability	12-01-96/12-01-97	XSSW0101	London
* Master policies only. Individual contractor policies also issued.			

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EXHIBIT 14

C. Contractor Roster (see Exhibit #15) Not attached

D. OCIP Organization Chart (see Exhibit #16) Not attached.