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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

AUG 19 1994

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[Signature]
EXECUTIVE SECRETARY

July 25, 1994

To: Board of Directors (Engineering & Operations Committee--Action)
(Finance & Insurance Committee--Action)
From: General Manager (Legal & Claims Committee--Action)

Subject: Revision No. 12 to Appropriation No. 560 to Increase Funding
from \$422,909,000 to \$442,530,000 to Finance Estimated Costs
for Insurance Payment for the Owner-Controlled Insurance
Program

Report

In November 1993, the Board authorized the creation of an Owner-Controlled Insurance Program (OCIP) for contractors and their employees working at the Domenigoni Valley Reservoir Project site. In February 1994, the General Manager was authorized to and did enter into a contract with Sedgwick/McAllister/Dickerson, a joint venture, to provide broker/administrator services.

The broker arranged for and Metropolitan participated in a briefing to 25 representatives from nine insurance companies at the proposed reservoir site. The project was described and the companies were asked to submit proposals for primary coverage addressing General Liability, Workers' Compensation, and Builders' Risk. Four insurance companies submitted quotations (Attachment A). Of the four quotations, the Hartford Insurance Company submitted the most competitive proposal.

The insurance companies were asked to submit their proposals based upon a commitment for the period of construction (estimated 6-7 years), and with a provision for an additional 5 years of liability coverage after construction is completed. Additionally, the insurers were asked to provide an informal quotation based upon the creation of an alternative dispute process for the workers' compensation program.

The insurance coverages are effective October 1, 1994, and consist of:

1. Liability insurance, which provides \$5 million primary coverage, with a \$500,000 deductible per occurrence, and an additional \$5 million of

excess coverage with Hartford. \$190 million excess of \$10 million coverage will be placed through Lloyds of London;

2. Workers' compensation insurance which provides statutory coverage for all contract employees on site and up to \$200 million for employers' liability coverage; and

3. Property insurance (Builders' Risk) which consists of \$100 million with a deductible of \$250,000 for flood and collapse and a \$50,000 deductible for all other perils.

The terms (Attachment B) of the Hartford primary liability proposal (\$5 million with a \$500,000 deductible) requires a premium of \$1,520,513 over a seven-year period. Additionally, the staff recommends a reserve fund of \$100,000 to cover deductible losses. An appropriation of \$1,620,513 is required for premium payments for the 7-year period of October 1, 1994 to September 30, 2001, and to establish a basic reserve for losses.

The terms (Attachment B) of the Hartford excess liability proposal (\$5 million excess of \$5 million) require a premium of \$375,000 for the 7-year term.

The excess liability insurance through the Lloyds of London syndicates will amount to \$190 million excess of \$10 million and will be tiered according to the various syndicates' commitments. The premium for the term is expected to be in the \$5 million range and is probably going to be required at the time of binding the coverage.

A total appropriation for liability coverage which will provide \$200 million of coverage for the period of construction plus the subsequent 5 years under completed operations will amount to approximately \$6,995,513, exclusive of losses within the deductible.

The Hartford proposal for workers' compensation insurance shows a \$36,218,614 Standard Premium based upon an estimated project payroll of \$328,400,000. The coverage will pay the statutorily-required benefits. It bears a \$500,000 per occurrence loss limit and a total maximum possible cost of \$33,600,000 for all workers' compensation and liability claims over the term of the project. The initial premium deposit amounts to \$750,000 which is to be paid in three equal payments over three years (\$250,000 each), plus 32% of the maximum cost

of \$33,600,000 to facilitate the first two years (Attachment B; Installment Schedule). The recommended appropriation for the OCIP workers' compensation insurance is \$11,600,000 million for the period of October 1, 1994 to September 30, 1996. Subsequent years' premiums will be adjusted based upon actual loss experience, and will provide the basis for appropriation adjustments at that time.

The terms of the property insurance (Builders' Risk) requires a premium of \$1,025,684 for four years (\$256,421 annually). The insurer has agreed to renew for up to three years after the initial four-year term.

The combined coverages require an appropriation of \$19,621,000 at this time. Future changes in the appropriation will be determined based upon actual loss experience.

Staff is considering a project labor agreement for this project, within which could be included a provision to allow for an alternative dispute resolution (ADR) process in administering and managing the workers' compensation aspects of the OCIP. Metropolitan would be the first public agency to do this under a recent revision to the California Labor Code (§ 3201.5).

Should ADR be implemented in regard to workers' compensation, Hartford has indicated that it will reduce the maximum cost (loss exposure) from \$33.6 million to \$27.2 million for the combination of workers' compensation and liability coverage. Additionally, the installment payments for workers' compensation would be reduced from \$36.2 million to \$27.2 million; a \$9 million differential (Attachment C). Metropolitan's workers' compensation outlay for the first two years would be reduced from \$10.9 million to \$8.2 million (Attachment D).

Board Committee Assignments

This letter is referred to:

The Engineering and Operations Committee for action because of its authority to study, advise, and make recommendations with regard to the operation, protection, and maintenance of the plants and facilities required for the production, exchange, sale, storage, treatment, and delivery of water and power and for the storage and treatment of water; and for the distribution of electrical energy to the aqueduct pumping plants, pursuant to Administrative Code section 2431, subdivision (c);

The Finance and Insurance Committee for action because of its authority to study, advise, and make recommendations with regard to questions pertaining to insurance coverage and self-insurance, pursuant to Administrative Code section 2441, subdivision (h); and

The Legal and Claims Committee for action because of its authority to study, advise, and make recommendations with regard to public liability insurance matters, including self-insurance aspects, and matters pertaining to errors and omissions insurance, pursuant to Administrative Code section 2461, subdivision (c).

Recommendation

ENGINEERING AND OPERATIONS COMMITTEE, FINANCE AND INSURANCE COMMITTEE, AND LEGAL AND CLAIMS COMMITTEE FOR ACTION.

1. That the Board of Directors approve the placement of the Owner-Controlled Insurance Program as herein described.

2. Authorize revision No. 12 to Appropriation No. 560, an increase of \$19,621,000 to a total of \$442,530,000 to accommodate the insurance premium payment plan.

John R. Wodraska
General Manager

By Greg D. Leddy
Greg D. Leddy

Concur:

JR Wodraska
John R. Wodraska
General Manager

LPG:gld/gld
Attchs.
placemnt.ins

OCIP – INSURANCE BIDS

WORKERS' COMPENSATION/PRIMARY LIABILITY
(Statutory) (\$5 million)

Workers Compensation <u>Type of Plan</u>	HARTFORD	AIG	ARGONAUT	USA/ST. PAUL
	<u>Net Cost Program</u>	<u>Dividend/W Retro</u>	<u>Dividend</u>	<u>Incurred Loss Plan</u>
1 Estimated Payroll	\$ 328,400,000	\$ 328,400,000	\$ 328,400,000	\$ 328,400,000
2 WIC Standard Premium	\$ 36,218,614	\$ 36,405,515	\$ 36,405,520	\$ 36,000,000
3 Loss Limit	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000
4 Total Maximum Cost	\$ 33,600,000	\$ 60,000,000	\$ 36,405,520	\$ 36,000,000
5 Claims Cost LCF	1.07	1.15	1.12	1.15
6 Tax Multiplier	1.031	1	1.00	1.031
Total Cost @ WC Losses of:				
7 \$14,400,000 40%	\$ 17,958,160	\$ 24,501,181	\$ 19,061,508	\$ 19,151,858
8 \$18,000,000 50%	\$ 21,929,572	\$ 28,641,181	\$ 23,113,508	\$ 23,420,196
9 \$25,000,000 75%	\$ 29,651,762	\$ 36,691,181	\$ 30,953,508	\$ 31,719,746
General Liability:				
10 GL Premium	\$ 1,520,513	\$ 4,500,000	\$ 1,350,000	\$ 3,163,492
11 Loss Limit	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000
12 Claims Cost: LCF	1.07	1.11	1.09	1.07
Total Cost @ GL Losses:				
13 \$3,000,000	\$ 4,730,513	\$ 7,830,000	\$ 4,620,000	\$ 6,373,492
14 \$5,000,000	\$ 6,870,513	\$ 10,050,000	\$ 6,800,000	\$ 8,513,492
15 \$7,000,000	\$ 9,010,513	\$ 12,270,000	\$ 8,980,000	\$ 8,626,019
Combined Total Cost:				
WC/GL Losses of:				
16 14.4 mil/3 mil	\$ 22,688,690	\$ 32,231,181	\$ 23,701,508	\$ 25,525,348
17 18 mil/5 mil	\$ 28,800,102	\$ 38,691,181	\$ 29,913,508	\$ 31,933,688
18 25 mil/7 mil	\$ 33,600,000	\$ 48,961,181	\$	\$ 36,000,000
			\$ 36,405,520	
Security	\$ 750,000 Deposit 3 Installments	\$ 4,000,000 LOC	None	\$2 Mil Loss Fund Incl. Promissory Note

THE METROPOLITAN WATER DISTRICT
INSTALLMENT SCHEDULE

Primary Casualty – Proposal IV

Year	Due	Worker's Compensation Premium Installments	General Liability Premium Installments	Total Premium WC & GL	General Liability Security Installments Due	Cash Amount
1	10/1/94	\$3,621,862	\$152,051	\$3,773,913	8/1/94	\$250,000
2	10/1/95	7,243,723	304,102	7,547,825	8/1/95	250,000
3	10/1/96	9,054,654	380,128	9,434,782	8/1/96	250,000
4	10/1/97	9,054,654	380,128	9,434,782		
5	10/1/98	3,621,861	152,052	3,773,913		
6	10/1/99	1,810,930	76,026	1,886,956		
7	10/1/00	1,810,930	76,026	1,886,956		
TOTAL		\$36,218,614	\$1,520,513	\$37,739,127		\$750,000

Excess Liability Premium Estimate for 7-Year Project

Year	Due	Premium Amount
1	10/1/94	\$375,000

Builders' Risk Coverage <4-Year Policy

Year	Due	Premium Amount
1	10/1/94	\$256,421
2	10/1/95	256,421
3	10/1/96	256,421
4	10/1/97	256,421

ATTACHMENT C

**OCP – INSURANCE
W/ALTERNATIVE DISPUTE RESOLUTION
(ADR)**

Hartford – ADR

Worker's Compensation:

<u>Type of Plan</u>	<u>Net Cost Program</u>
Estimated Payroll	\$ 328,400,000
WC Standard Premium	\$ 36,351,454
Loss Limit	\$ 500,000
Total Maximum Cost	\$ 27,248,591
Claims Cost: LCF	1.075
Tax Multiplier	1.031
Total Cost @ WC Losses of:	
\$14,400,000	\$ 18,004,070
\$18,000,000	\$ 21,994,040
\$25,000,000	\$ 27,248,591

General Liability:

GL Premium	\$ 1,520,513
Loss Limit	\$ 500,000
Claims Cost: LCF	1.075
Total Cost @ GL Losses:	
\$3,000,000	\$ 4,745,530
\$5,000,000	\$ 6,895,530
\$7,000,000	\$ 9,045,530

Combined Total Cost:

WC/GL Losses of:

14.4 mil/3 mil	\$ 22,749,600
18 mil/5 mil	\$ 27,248,591
25 mil/7 mil	\$ 27,248,591

**THE METROPOLITAN WATER DISTRICT
INSTALLMENT SCHEDULE
Proposal IV-A (With ADR)**

Primary Casualty

<u>Year</u>	<u>Due Premium</u>	<u>Worker's Compensation Installments</u>	<u>General Liability Premium Installments</u>	<u>Total Premium WC & GL</u>	<u>General Liability Security Installments</u>	
					<u>Due</u>	<u>Cash Amount</u>
1	10/1/94	\$2,724,859	\$152,051	\$2,876,910	8/1/94	\$250,000
2	10/1/95	5,449,719	304,102	5,753,821	8/1/95	250,000
3	10/1/96	6,812,148	380,128	7,192,276	8/1/96	250,000
4	10/1/97	6,812,148	380,128	7,192,276		
5	10/1/98	2,724,859	152,052	2,876,911		
6	10/1/99	1,362,429	76,026	1,438,455		
7	10/1/00	1,362,429	76,026	1,438,455		
	TOTAL	\$27,248,591	\$1,520,513	\$28,769,104		\$750,000

Excess Liability Premium Estimate for 7-Year Project

<u>Year</u>	<u>Due</u>	<u>Premium Amount</u>
1	10/1/94	\$375,000

Builders' Risk Coverage <4-Year Policy

<u>Year</u>	<u>Due</u>	<u>Premium Amount</u>
1	10/1/94	\$256,421
2	10/1/95	256,421
3	10/1/96	256,421
4	10/1/97	256,421

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