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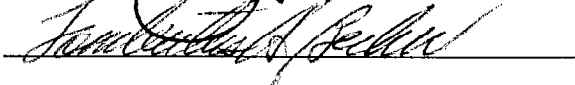
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Dawn Price
for EXECUTIVE SECRETARY

June 18, 1996

To: Board of Directors (Legal and Claims Committee--Action)
(Finance and Insurance Committee--Action)
(Engineering and Operations Committee--Action)

From: General Manager 

Submitted by: Lambertus H. Becker
Chief Financial Officer 

Subject: Authorize an Owner-Controlled Insurance Program and a Contract for
Broker/Administrator Services in Support of the Inland Feeder Project

RECOMMENDATION(S)

It is recommended that the General Manager be authorized to enter into an agreement with Sedgwick/Dickerson to provide broker/administrative services in support of an owner-controlled insurance program for the Inland Feeder Project for a period of three years at an amount not to exceed \$1,085,000 and with the option to renew the agreement for the term of the Project following the first three years.

EXECUTIVE SUMMARY

The Inland Feeder Project has been examined by the Risk Manager and the Finance Division to determine if an owner-controlled insurance program (OCIP) is a viable approach to managing risks for this project. It was concluded that an OCIP is viable and economically beneficial. The worst case scenario will result in a savings at a minimum of \$4 million with the insurer projecting a savings of \$20 million if the project achieves a target similar to that which is being achieved at the Eastside Reservoir Project. Sedgwick/Dickerson has negotiated a favorable administrative services program at a cost of \$1,085,000 for the first three years.

DETAILED REPORT

Based upon the District's experience with an owner-controlled insurance program (OCIP) on the Eastside Reservoir Project wherein the trends show workers compensation claims cost at one-third of the Statewide average in the construction industry and prospect of saving \$30 million on the insurance component, the District staff examined the Inland Feeder Project for OCIP application. Independent studies by the Risk Manager and the Finance Division conclude that the District can save a minimum of \$4 million, with a likelihood of \$12/16 million savings based upon a prudent loss ratio target. This savings will be achieved after consideration of extra expenses incurred by the District in administrating the program.

Due to the proximity of the Inland Feeder Project to the Eastside Reservoir Project, the staff examined its options in seeking broker/administrative services for the Inland Feeder Project. It was concluded that a negotiated agreement with the existing broker would be the optimum approach. The projects can share many administrative functions and information systems elements. The approach to claims would be reciprocal between the projects; the labor pool from the Riverside-San Bernardino area would be operating under the same workers' compensation carrier and alternative dispute resolution process, crossover claims emanating from one project and cropping up in the other project would be commonly managed.

Negotiations with Sedgwick/Dickerson and the Hartford Insurance Company have produced an administrative proposal lower than that which exists for the Eastside Reservoir Project, with the insurer accepting additional administrative costs in providing the broker with the resources to address the safety and ombudsperson functions.

The broker/administrator has negotiated an administrative proposal for \$1,085,000 for the first three years. In 1994, the lowest proposal submitted for broker/administrator services on the Reservoir project was \$1.22 million for three years. The Hartford has agreed to provide a minimum \$150,000 to support safety and ombudsperson services as well as grant a 25 percent credit (\$7+ million) for an alternative dispute resolution process for insurance claims. The broker and Hartford estimate that the insurance program will cost the District \$20 million at a 40 percent loss ratio. This is a savings of over \$20 million over the traditional insurance approach to capital projects.