10-16

April 6, 1999

To: Board of Directors (Engineering and Operations Committee—Information)

From: General Manager

Submitted by: Lambertus H. Becker
Chief Financial Officer

Subject: Fifth Annual Stewardship Report on Eastside Reservoir Project's Owner Controlled Insurance Program (ESRP OCIP)

RECOMMENDATION

For information only.

EXECUTIVE SUMMARY

Annually, Sedgwick/Dickerson (Sedgwick), the Eastside Reservoir Project (ESRP) Owner Controlled Insurance Program (OCIP) Administrator, completes a stewardship report on the ESRP OCIP performance. A copy of Sedgwick's report which includes an Executive Summary is attached. Claims and safety experience, and costs for the OCIP are updated each year and compared with the State of California Workers' Compensation standards. The ESRP OCIP achieved a net $18.8 million cost savings from the use of an OCIP compared to a traditional insurance program.

A total cost savings of $26 million (the $18.8 million plus an additional savings of $7.2 million) may be realized, if the combined losses (workers' compensation and general liability) result in a 55% or lower loss ratio. Of the $7.2 million, Metropolitan has received $3.3 million for prior years' favorable claims experience. The 55% loss ratio continues to be a realistic target.

As of March 1999, 56% of the Board approved OCIP appropriation ($40,854,615) has been spent. As the project nears completion, other considerations such as the construction of recreation facilities, early settlement of the remaining open workers' compensation and general liability claims, the outcome of pending litigation on builders' risk claims and possible FEMA recovery for some of the builders' risk claims will determine the final cost of this program. It is anticipated that the Board approved appropriation will cover known OCIP expenditures though the completion of the project.

DETAILED REPORT

In November 1993, the 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.

The OCIP for the Eastside Reservoir Project is a multi-year agreement to provide a project-based insurance program covering all contractors and Metropolitan. The ESRP OCIP provides a comprehensive insurance, claims, and safety program for all contractors; and supports a Project Labor Agreement (PLA) with provisions for the use of a workers' compensation alternative dispute resolution (ADR) process under California Labor Code Section 3201.5. The cumulative effect of the OCIP results in lowering the cost of insurance premiums, claims management and settlements. This program returns cost savings (from favorable claims experience) to Metropolitan versus the traditional insurance program which returns costs savings to the contractor while the owner pays the full cost of insurance coverage.

An overview of the ESRP OCIP is provided in the Executive Summary of the accompanying Stewardship Report. Updated information pertaining to the ESRP OCIP performance, as of March 1999, follows:

- ❒ Both the Project and the National average for lost-time incident rates (number of lost-time incidents per 200,000 hours worked) have declined (from 2.72 to 2.66 and 3.9 to 3.4, respectively).

- ❒ The total incurred loss ratio has declined from 45% to 43% with changes in the claims reserves from $8,753,055 to $9,519,612 and in the earned premium from $19,616,409 to $22,129,008. The 55% loss ratio continues to be a realistic target.

In conclusion, the ESRP OCIP achieved a total of $22.1 million ($18.8 plus $3.3 million) cost savings in project costs through March 1999, for implementing an OCIP in comparison to a traditional insurance program. It is anticipated that the ESRP OCIP appropriation will cover known OCIP expenditures through the completion of the project.

BYA

Attachment 10-16A

Attachment 10-16A

EASTSIDE RESERVOIR PROJECT

TABLE OF CONTENTS

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 OCIP

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

An OCIP 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 OCIP is control -- control of essential project insurance lines (i.e., workers' compensation, general liability and builders' risk), and control of site safety and loss control programs by a single project manager.

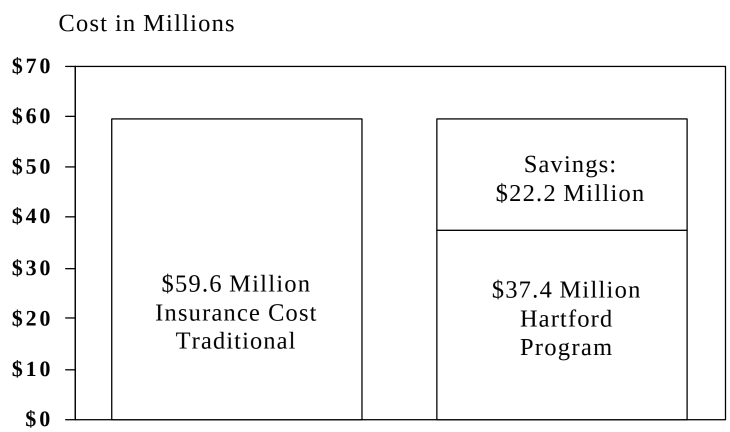
Characteristics of an OCIP include:

- 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.

We, Sedgwick of California, and our Joint Venture Partner, Dickerson Insurance Services, as the Metropolitan Water District's insurance broker, negotiated an insurance program with the Hartford Insurance Company. The Hartford Program totaled **$37.4 million, ($22.2 million)** below the Traditional insurance premium estimate of **$59.6 million**. <u>In addition, the potential for added savings is based upon the Project achieving a 55% claim loss ratio and a reduction in contractor bids.</u> In November 1993, the Board authorized the creation of an OCIP for contractors and their employees working at the Eastside Reservoir Project site. The Board action was based on an estimated cost savings of **$22.2 million** compared to the difference in cost of a traditional insurance program and the proposed OCIP, program as illustrated in Exhibit 1 below.

Exhibit 1

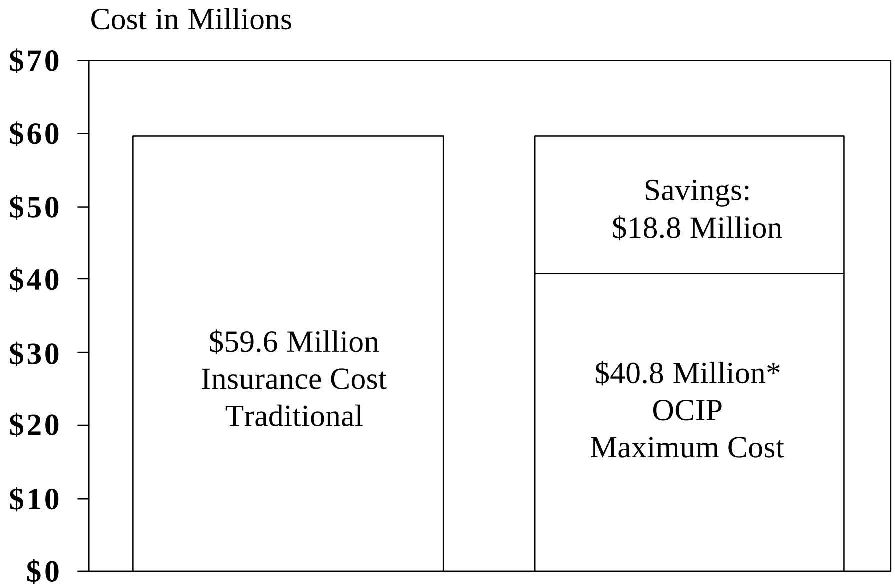
Cost Comparison
OCIP vs. Traditional Insurance Program*
Period 1994 to 2000
Project Cost
(55% Loss Ratio)



* The traditional insurance program represents the estimated cost of insurance that would be provided by contractors, based upon 1994 rates and paid by the owner of the project as part of the cost of the bid. Note: any refunds for good claims experience would be returned to the contractors, not to MET.

Below is Exhibit 2 showing net cost savings of $18.8 million using the final Hartford Insurance Program including OCIP Administrative fees versus the Traditional Insurance Program.

Exhibit 2
Cost Comparison
Traditional Insurance Program vs. Hartford Insurance Program
Period 1994 to 2000
Project Cost
(55% Loss Ratio)



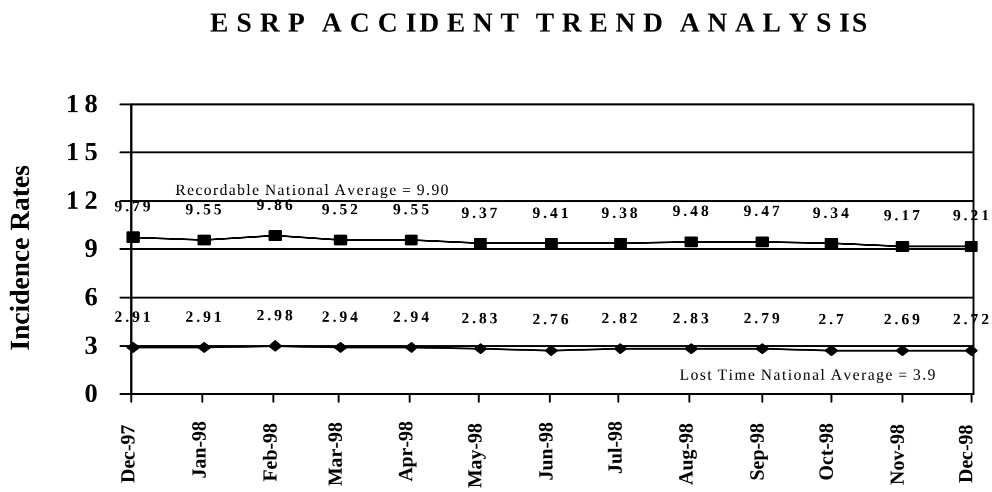
*Includes total OCIP expected expenditures for the project.

Eastside Reservoir Project Major Accomplishments:

- Disability claims represented 20% of all claims versus statewide average of 47% of all construction claims.
- 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.
- Additional savings of $11.4 million is achievable should losses at completion of project be equal to or less than **$15.8 million**. To date, we have received $3,266,588 as part of the additional savings from favorable claims experience.

The trend analysis for loss time accidents (2.72) and recordable incident rates (9.21) continue well below the national average (3.90 and 9.90, see Exhibit 3).

Exhibit 3



If MET had used the contractors' traditional insurance program for this project, at the end of four years, MET's construction cost would have increased by $31.4 million. Exhibit 4 shows what the loss ratio would be using total losses incurred and the contractors' traditional premium costs for the first four years. Note that the lower ratio of 29% is a function of the higher premium deposit and any refunds for good claims experience would be returned to the contractors, not to MET.

Exhibit 4

Eastside Reservoir Project-To-Date Results

1994 - 1998

Incurred Losses vs. Traditional Obligation

- **<u>Total losses incurred</u>** are actual loss dollars paid and dollars entrusted to cover claims that have occurred but not settled.
- Total losses occurred under workers' compensation and general liability insurance ($8.8 million) divided by 4 years (1994-1998) of traditional workers' compensation and general liability premiums ($31.4 million) results in a loss ratio of 29%.

<u>$8.8 million</u> =	29%
$31.4 million *	

* Premiums for first 4 years of project

Through the use of its OCIP, MET has reduced construction costs by $9 million and paid $22.4 million for OCIP insurance and administrative costs for the same period (Exhibit 5). Note: The refunds for good claims experience will continue to return annually to MET.

Exhibit 5

Incurred Losses vs. Premium Paid Obligation

1994 - 1998

- Total losses incurred under workers' compensation and general liability insurance ($8.8 million), divided by 4 years (1994-1998) of Hartford's workers' compensation and general liability premiums and OCIP administrative costs ($22.4 million), results in a loss ratio of 40%.

$$\frac{\$\ 8.8 \text{ million}}{\$22.4 \text{ million *}} = 40\%$$

* Premiums for first 4 years of project plus administrative costs.

II. RECAP OF SERVICES, SIGNIFICANT EVENTS AND FIGURES FOR 1998

A. Administration:

Effective management of the OCIP program for the Eastside Reservoir Project is essential to a safe, productive and profitable project.

Administrative management activities have consisted of the following:

- Enhanced communication through various safety and management meetings with Metropolitan's staff and contractors of all tiers associated with the project.
- Analyzed incidents and trends that impact the project and developed action plans to improve results.
- Developed clear and concise safe work practices guidelines and procedures for contractors of all tiers and vendors to follow while on the project site.
- Tracked key indicators such as payrolls, contractors' deductibles and claims through our Construction Project Risk Information Management System (COPRIMS) to identify trends which may impact the project. Most importantly, we used 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:

- Returned net premiums of **$3,266,588** to MET as a result of good claim experience.
- Addressed the insurance coverage definition of claim versus occurrence.
- Validated the information in the third annual State of California, Division of Workers' Compensation Carve Out Report for calendar year 1998.
- Compared Eastside Reservoir Project costs and losses against other OCIP Projects. The projects varied in nature and the loss ratios range from 38% to 231% (See Appendix Exhibit 16). The information was derived via telephone. It was not subject to audit nor validated by the inquirer.
- The OCIP team provided status reports on the project's loss control and safety activities 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, and Hartford's Quarterly Claims review meeting.

B. Safety and Loss Control:

Management of the resources within the control of the OCIP team will have a significant impact on the quality of safety, goodwill with contractors, and overall loss experience for the project.

<u>Safety and Loss Control management activities:</u>

- Improved our safety and loss control program through improved loss control engineering and planning to reduce exposures to losses. Maintained visibility and accessibility to MET management, vendors, and contractors of all tiers.
- Conducted various training and orientation sessions for contractors in order to reinforce safety standards and safe work practices.
- Examined the type of injuries suffered by the workers and surrounding community and utilized the information to develop appropriate action plans to decrease the number of losses.
- Used the insight and expertise of our OCIP safety team to review blasting and tunneling guidelines and procedures.
- Updated the Procedures Manual to reflect changing conditions and training programs.

Major Accomplishments:

The OCIP safety team through site inspections and planning has helped decrease the accident recordable incident rate of 9.79 in December 1997 to a low of 9.21 in December 1998 (.69 below the national average of 9.90). In addition, the lost time incident rate was decreased from a high of 2.91 in December 1997 to a low of 2.72 in December 1998 (1.18 points below the national average of 3.90).

We analyzed the type of injuries suffered by workers and the surrounding community. Workers continue to experience a high number of work related strains and contusions. The OCIP 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. The installation of cables through stakes as grab holds.
2. That workers stretch and flex to loosen up limbs and joints.
3. That winches be used to haul equipment and materials up slopes.
4. That workers refrain from dragging equipment and materials up slopes.

C. Claims Management:

Claims management activities consisted of the following:

- The OCIP Ombudsperson made contact with all injured workers to inform 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, and answered all appropriate questions.
- The OCIP team conducted regular reviews of the Workers' Compensation and General Liability claims files with MET and The Hartford.
- The OCIP team, along with MET and contractors' safety representatives, investigated all new claims.
- The OCIP team participated in arbitration and mediation cases.

Major Accomplishments:

- First project to institute Alternative Dispute Resolution (ADR) program in the state.
- Opened a nurse station to provide on site care to injured workers.
- Added a second shift at the nurse station to provide drug testing and services to contractors that operate multiple shifts.

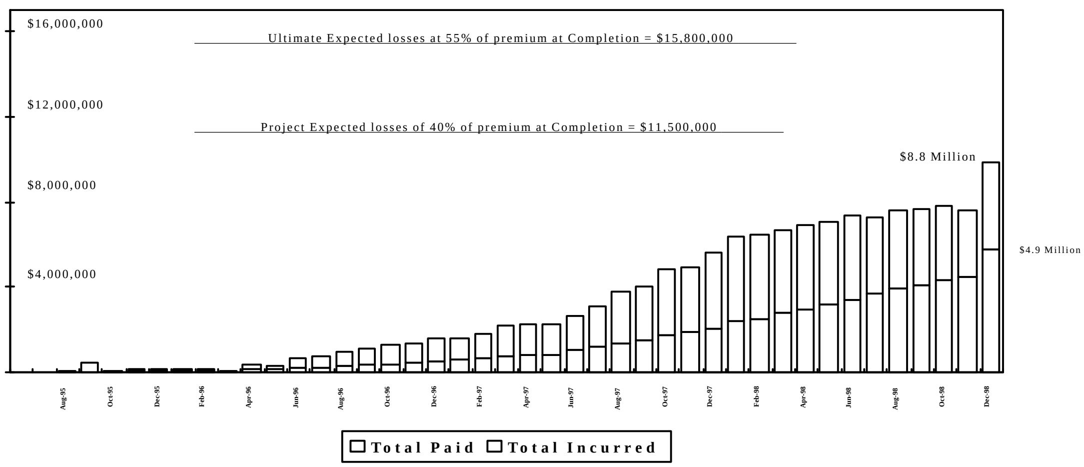
ADR major accomplishments included:

- Reviewed and updated a Procedures 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.
- Arranged 18 cases for either Mediation or Arbitration. All the sessions were scheduled and arranged for all attending parties with the Ombudsperson participating in each session. 25 cases settled with Permanent Disability. The largest settlement was $59,749
- Challenged 2 Arbitration cases challenged the Workers' Compensation Appeals Board (WCAB) on jurisdictional and constitutional grounds. The courts in both cases upheld the Project Labor Agreement (PLA) and the ADR program.

D. Claims Activity/Loss Ratios/Large Losses:

At the completion of the project there would be additional savings of ($12.9 million) if premiums ($28.7 million) and losses ($15.8 million) remain constant. The total incurred losses are **$8,822,658,** of which **$4,919,105** represents paid losses (See Exhibit 6). Our goal is to finish the project with a favorable combined Workers' Compensation and General Liability (WC & GL) loss ratio of 55% orders and earn the additional savings for MET (through 12/98).

Exhibit 6
Eastside Reservoir Project's Combined WC and GL*
Loss Summary
As of December 31, 1998



* WC and GL combined losses of $8.8 Million

In addition, the above chart reflects the difference between Hartford's claimed reserves and the amount Hartford has paid on those reserves. There is a disparity between the total incurred and the actual paid amount. A review of The Hartford's reserving practice is ongoing to assure allowances for the ADR program. In addition, claims must be settled and closed as soon as practical. If the 50% differential prevails, MET can expect an additional dividend return from prior years.

Loss ratio: At the end of the fourth year, the Eastside Reservoir Project's combined workers' compensation and general liability losses, compared against premiums paid (earned premium) and total incurred losses, results in a loss ratio of 45% (see Exhibit 7 below). Builders' Risk coverage is not part of the loss-sensitive program; however, extensive claims were filed during the year.

Exhibit 7

Loss Ratio based on Total Incurred Losses
As of December 1998
1994 to 1998

Line of Insurance	Earned Premium (1)	Total incurred Losses	Loss Ratio
Work Comp as of Dec. 1998	$18,400,000	$8,410,776	46%
Gen. Liability As of Dec. 1998	$ 1,216,409 $500,000 SIR	$ 342,279	N/A
Combined (2)	**$19,616,409**	**$ 8,753,055**	**45%**
Builders' Risk	$ 1,042,251	$ 1,728,251	166%
Total Program	**$20,658,660**	**$10,481,306**	**N/A**

Notes:

(1) The premium used in the calculation are the scheduled paid and audited premiums.
(2) Combined represent workers' compensation and primary liability which is used in the retro calculation.

The combined loss ratio based on earned and scheduled premiums paid and actual losses paid equal 25% (see Exhibit 8).

Exhibit 8

Loss Ratio based on Actual Paid Losses
As of December 1998
1994 – 1998

Line of Insurance	Earned Premium (1)	Actual Paid Losses	Loss Ratio
Work Comp As of Dec. 1998	$18,400,000	$ 4,731,374	26%
Gen. Liability As of Dec. 1998	$ 1,216,409 $500,000 SIR	$ 187,731	N/A
Combined (2)	**$19,616,409**	**$4,919,105**	**25%**
Builders' Risk	$ 781,579	$ 393,181	50%
Total Project	**$20,397,988**	**$5,312,286**	**N/A**

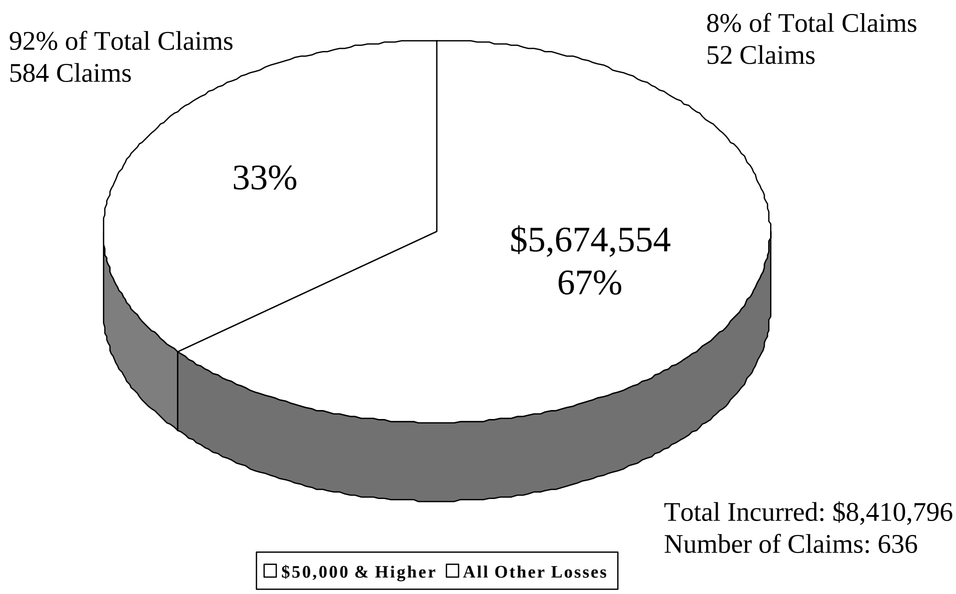
Notes:

(1) The premiums used in the calculation are the scheduled paid and audited premiums.
(2) Represents the combined workers' compensation and primary liability premiums, which are used in the retrospective calculation.

Large Loss: The project's financial exposure as well as the largest portion of insurance premium is tied to workers' compensation insurance. Projected year to date **total incurred losses** of **$50,000** and higher have accounted for 64% ($5,674,554) of the incurred losses, but represent only **8% (52)** of the reported claims (see Exhibit 9).

Exhibit 9

Workers' Compensation Claims
$50,000 and Higher
Percentage of Total Incurred
1994-1998

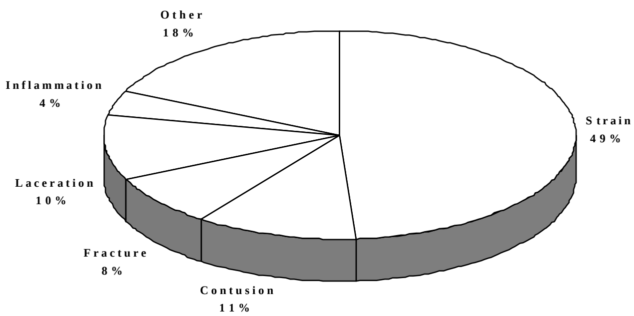


Nature of Injuries: Strains represent the largest category of injuries suffered by workers. Investigation has revealed that lack of proper techniques with respect to lifting, pulling, carrying, physical condition of workers, age of workers, and/or steep slopes are the cause of most injuries at the project. Investigation of the nature of injuries by the OCIP team is ongoing. The OCIP team recommended improvements to decrease the losses. Listed below is a chart of the nature of injuries suffered by workers (Exhibit 10 and 10A).

Exhibit 10

Workers' Compensation Nature of Injuries
1994-1998

Exhibit 10A



Nature of Injuries Suffered by the workers

Nature of Injury	# Claims	% of incurred	Total incurred
Strain	235	49	$4,321,518
Contusion	105	11	$ 994,453
Fracture	38	8	$ 653,754
Laceration	71	10	$ 908,035
Inflammation	40	4	$ 321,846
Other	147	18	$1,631,794*
Total	**629**	**100**	**$8,410,776**

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

Other Significant statistical data:

Different benchmarks for evaluation of workers' compensation performance are shown in Exhibits 11 and 12.

Exhibit 11

Workers' Compensation Program
Cost Per $100 of Payroll

Program Year	No. of Claims	Actual Payroll	Incurred Cost	Cost per $100/Pay.
12/31/94-95	27	$11,201,465	$ 80,891	$ .72
12/31/95-96	155	$35,670,332	$1,480,266	$ 4.15
12/31/96-97	376	$87,386,106	$4,017,260	$ 4.60
12/31/97-98	246	$101,749,754	$2,832,359	$ 2.78
Total	629	$236,007,657	$8,410,776	$ 3.56

Exhibit 12

Workers' Compensation Program
Cost Per 100 Manhours

Program Year	No. of Claims	Actual Manhours	Incurred Cost	Cost per 100 Manhours
12/31/94-95	27	447,045	$80,891	$ 18.00
12/31/95-96	132	1,521,070	$1,480,266	$ 97.00
12/31/96-97	231	3,487,800	$4,107,260	$115.00
12/31/97-98	246	3,884,869	$2,832,359	$ 73.00
Total	629	9,340,784	$8,410,776	$ 90.00

Exhibit 13 tracks the development of workers' compensation losses over time.

Exhibit 13

Loss Triangle Valued on a Paid Loss Basis

Year	One Year	(Two Years)	(Three Years)	(Four Years).
12/31/94-95	$ 23,832.04	$ 19,262.52	$ 19,262.62	$ 19,262.62
12/31/95-96	$ 414,168.42	$1,035,727.31	$812,196.75	
12/31/96-97	$ 594,332.01	$1,561,804.00		
12/31/97-98	$2,602,365.00			

E. Risk Control Activities:

The OCIP team has emphasized teamwork between all the colleagues (MET, contractors of all tiers and OCIP team) to yield a successful project. Most importantly, the OCIP team provided safety and loss control resources for all parties associated with the project.

Safety and Loss Control Activities:

- Implemented a proactive safety and loss control program whereby we identified potential hazards and developed appropriate action plans to improve safety.
- Maintained visibility and accessibility to all colleagues, vendors, and contractors of all tiers.
- Conducted various training and new contractors safety orientation sessions. We also provided safety manuals and discussed safety standards and safe work practices.
- Examined the type of injuries suffered by the workers and nearby community. Used the information to develop appropriate action plans to decrease the number of losses.
- Developed and distributed the project safety manual.

F. 1998 Insurance/Risk Management Expense:

1. Broker/Administrative Cost by Year (see Exhibit 14 below)

Sedgwick employs one Ombudsperson (split 50/50 between the Eastside Reservoir Project and The Inland Feeder Project), two full-time nurses, two safety representatives, and one account coordinator. We also maintain a project site office and a first-aid station. Other services include marketing and servicing the OCIP policies, claims history and safety programs for contractors and MET. The service fees paid for this period are $777,545.

Exhibit 14

Service Fees Annual Recap

Policy Year	Amount Invoiced
1994	$379,289
1995	$405,268
1996	$528,504
1997	$749,059 *
1998	$777,545
Total	$2,834,665

* Includes cost for opening first aid station, 2 nurses and coverage for two shifts.

A. Sedgwick paid its DBE/WBE subcontractor $451,805 (16%) as of December, 1998 compared to the contract requirement of 15%.

B. No interest income has been earned from premium float.

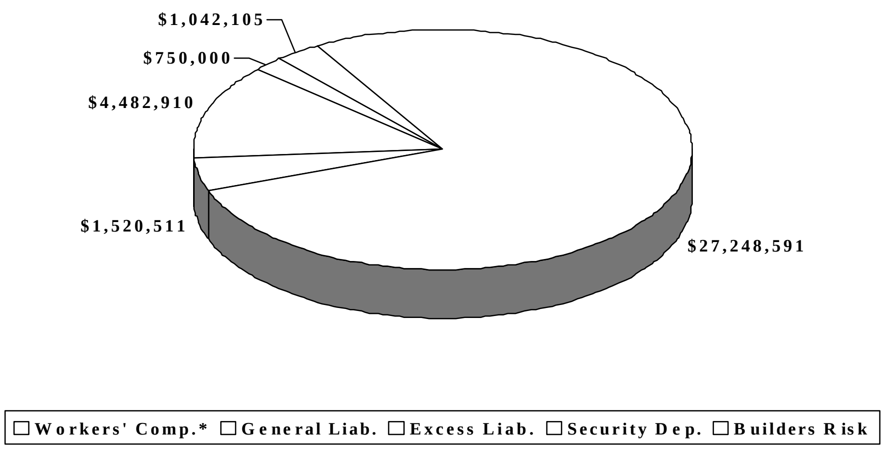
C. Sedgwick/Dickerson has not received any commissions.

2. Premiums Paid (Premium deposits subject to audit):

Hartford's Program premiums by line of insurance is shown in Exhibit 15

Exhibit 15

Eastside Reservoir Project Program Premiums 1994-2000



Total Premiums: $35,044,117
*Eligible for retro claim experience.

III. PLANS FOR 1998 -1999

A. Market Trends

The market place for the major line of OCIP coverage continue to be competitive. Despite industry merger & consolidation activity, there is still abundant capacity. We can, however, expect a slight hardening of specialty markets such as earthquake and Errors and Omissions.

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 Inc.

Sedgwick recognizes 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 matters 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 concerning 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 inquires prior to market selection by the client.

C. Major Activities/Goals:

Sedgwick will:

- Continue to meet or exceed all scope of services.
- Continue to administer the OCIP 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:

- MET filed a lawsuit against the Hartford's Builders' Risk policy. The litigation cost may increase the overall project budget. However, the litigated cost will not affect the retrospective rating program.
- Extension of the program into the year 2000 may increase the insurance cost of the program.
- If MET decides to construct recreation facilities under an OCIP, we have to evaluate the cost of rolling the facilities into the current OCIP.
- When the project concludes, we need to evaluate the cost effectiveness of selling outstanding claims to Hartford (buy-out) or to process the claims under MET's operational program.

E. 1999 Loss Projection:

- MET's construction engineers originally projected a payroll expenditure of $82.1 million for the 1998-1999 policy year. This projection would generate a premium of $6,789,762. Using the project goal of 55%, we can anticipate losses in the neighborhood of $3,734,369 for the 1998-1999 policy period.

IV. OUTSTANDING/ANTICIPATED PROBLEMS & RECOMMENDATIONS:

- Sedgwick will 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.
- Review contractor' general liability deductible program.
- Emphasize to all contractors the importance of prompt claim reporting.
- Revises monthly OCIP report.
- Amend contract provisions to reflect the purchase of Sedgwick by Marsh, Inc.

V. APPENDIX:

A. Current Sedgwick Public Agencies Project OCIP'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 38% to 231% .

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 16 below).

Exhibit 16

CURRENT SEDGWICK PUBLIC AGENCY OCIPs IN CALIFORNIA

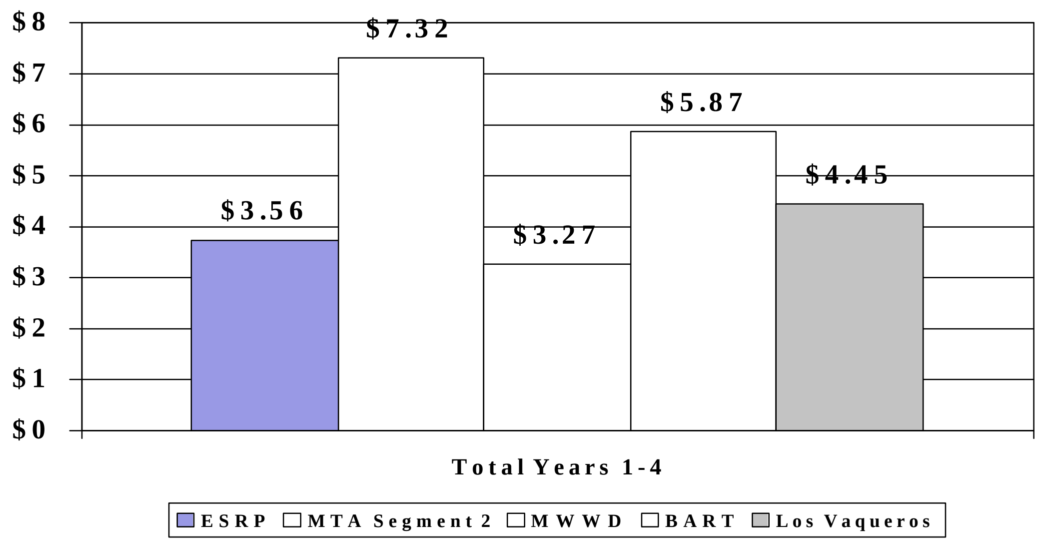
Project Name	Construction Value	Duration	Completion Date	WC & GL Prem YTD ending 1998	Total Incurred Losses
Metropolitan Transportation Authority (MTA)	**$1,100,000,000**	**10 years**	**9/00**	**$30,212,599**	**$70,000,000**
City of San Diego Municipal Waste Water Development (MWWD)	**$771,907,623**	**6 years**	**7/00**	**$ 11,987,757**	**$5,106,929**
Bay Area Rapid Transit Extensions (BART)	**$617,965,419**	**6 years**	**5/97**	**$ 13,579,642**	**$8,959,554**
Contra Costa Water Authority Reservoir Dam (Los Vaqueros)	**$205,306,059**	**4 years**	**6/98**	**$ 7,144,363**	**$2,769,437**
Los Angeles Harbor Authority WorldPort LA	**$573,979,437**	**3 years**	**12/97**	**$ 13,500,000**	**$6,130,793**

A Benchmark used for Workers' Compensation experience is:

Average Incurred Cost Per $100 Of Payroll

Exhibit 17

Eastside Reservoir Project
OCIP Workers' Compensation
Total Average Incurred Cost per $100 of Payroll



1. Average Loss Rate - Incurred Losses (Payroll/100)
2. Include Legal Costs (ADR)

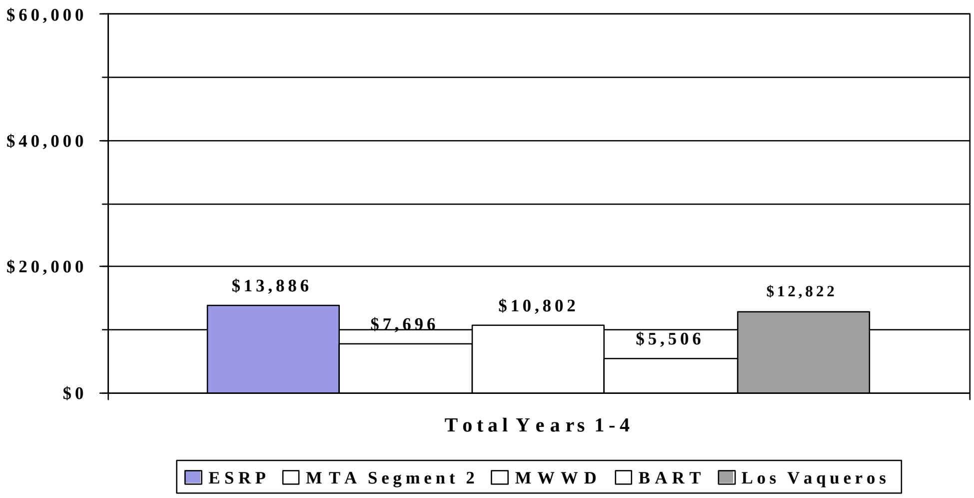
Developed by Sedgwick of California, Inc.
Information valued as of December, 1998.

A Benchmark used for Workers' Compensation experience is:

Average Incurred Cost Per Claim

Exhibit 18

Eastside Reservoir Project
OCIP Workers' Compensation
Total Average Incurred Cost per Claim*



*Average Incurred Cost = Incurred Cost/Number of Claims

Developed by Sedgwick of California, Inc.
Information valued as of March 31, 1999

B. Policy Register (see Exhibit 19)

Exhibit 19

POLICY REGISTER
EASTSIDE RESERVOIR PROJECT

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.

DURATION - February 1994 - February 1998

COVERAGES	POLICY PERIOD	POLICY NUMBER	COMPANY
* Workers Compensation	12-01-96/12-01-98	WBRQ11001	Hartford
General Liability	12-01-96/12-01-98	CSEQW1100	Hartford
Builders'Risk	03-20-95/03-20-98	MSJZ4516	Hartford
Excess Liability	12-01-96/12-01-98	XSSW0101	London
* Master policies only. Individual contractor policies also issued.			

h:\any\ocips\mwd\rpts\admin\dvrpolrg.wk4

C. Contractor Roster (see Exhibit 20). Available on request. Lotus or hard copy only

D. OCIP Organization Chart (see Exhibit 21)

Exhibit 21

Project Administration Organization