

**SOUND TRANSIT  
STAFF REPORT**

**MOTION NO. M2008-95**

**Authorizing Implementation of an  
Owner Controlled Insurance Program for University Link**

<b>Meeting:</b>	<b>Date:</b>	<b>Type of Action:</b>	<b>Staff Contact:</b>	<b>Phone:</b>
Finance Committee	9/18/08	Discussion/Possible Action to Recommend Board Approval Action	Brian McCartan, FIT Executive Director	(206) 398-5100
Board	9/25/08		<b>David Grenier, Risk Manager</b>	(206) 398-5096

<b>Contract/Agreement Type:</b>	<input checked="" type="checkbox"/>	<b>Requested Action:</b>	<input checked="" type="checkbox"/>
Competitive Procurement	<input checked="" type="checkbox"/>	Execute New Contract/Agreement	<input checked="" type="checkbox"/>
Sole Source		Amend Existing Contract/Agreement	
Agreement with Other Jurisdiction(s)		Budget Amendment	
Real Estate		Property Acquisition	

**PROJECT NAME**

University Link – Pine Street Stub Tunnel (PSST) to UW Station

**PROPOSED ACTION**

Authorizes the chief executive officer to implement an Owner Controlled Insurance Program for University Link by entering into all necessary agreements and contracts with selected insurance companies through Sound Transit’s insurance broker, in an amount not to exceed \$21 million for the initial term.

**KEY FEATURES of PROPOSED ACTION**

- This action authorizes the CEO to implement an Owner Controlled Insurance Program (OCIP) for University Link (U-Link). The major components of the insurance and risk management program structure include:
  - General Liability and Excess Liability Insurance
  - Builders Risk Insurance to provide coverage for structures under construction
  - Environmental Liability Insurance
- Under the U-Link OCIP program, Sound Transit will provide insurance for contractors working on designated U-Link construction sites rather than having the contractors provide their own insurance coverage. This approach provides a uniform, high-quality insurance program with financial economies and improved controls for the University Link project.
- The U-Link OCIP program provides for a reassessment of claims levels and insurance costs at the five year period (2013) and the insurance provider has the right to adjust costs, potentially higher, at that point based on loss experience and actual total construction value.
- The costs for this program are within the amounts set aside within the University Link budget. The initial term of the OCIP program will be for five to eight years depending on insurance coverage.

## **BUDGET IMPACT SUMMARY**

There is no action outside of the Board-adopted budget; there are no contingency funds required, no subarea impacts, or funding required from other parties other than what is already assumed in the financial plan.

## **BUDGET and FINANCIAL PLAN DISCUSSION**

The Adopted 2008 Lifetime Capital Budget for University Link is \$1.614 billion. Within that amount \$23.2 million has been set aside for Owner Controlled Insurance Program (OCIP) in the agency administration phase. The proposed action would commit \$21.0 million of this amount, leaving a remaining balance of \$2.2 million for this budget line item.

In July 2008, the Sound Transit Board of Directors approved a revised University Link Project Capital Baseline Cost Estimate (BCE) at \$1.756 billion. This revised capital BCE will be incorporated into the Proposed 2009 Budget for adoption.

The proposed action is consistent with the current adopted budget, and is affordable within the agency's long-term financial plan and subarea financial capacity. The action will have no new revenue impact on Sound Transit.

## **BUDGET TABLE**

**Action Item:** (Owner Controlled Insurance Program (OCIP) for University Link)

**(Year of Expenditure \$000)**

<b>University Link</b>	<b>Adopted 2008 Budget (A)</b>	<b>Committed To Date (B)</b>	<b>This Action (C)</b>	<b>Total Committed &amp; Action (D)</b>	<b>Uncommitted (Shortfall) (E)</b>
Agency Administration	115,229	15,519	21,000	36,519	78,710
Preliminary Engineering	24,388	24,329		24,329	59
Final Design	77,944	58,665		58,665	19,279
Right of Way	157,332	112,526		112,526	44,806
Construction	1,046,946	12,798		12,798	1,034,148
Construction Services	68,526	64,754		64,754	3,772
Third Party Agreements	19,733	9,424		9,424	10,309
Vehicles	103,909	99,185		99,185	4,724
<b>Total Current Budget</b>	<b>1,614,007</b>	<b>397,198</b>	<b>21,000</b>	<b>418,198</b>	<b>1,195,809</b>
<b>Agency Administration Phase Budget Detail</b>					
OCIP	23,204	0	21,000	21,000	2,204
Other Agency Administration	92,025	15,518		15,518	76,507
<b>Total Phase</b>	<b>115,229</b>	<b>15,519</b>	<b>21,000</b>	<b>36,519</b>	<b>78,710</b>
<b>Contract Amount</b>					
	<b>Board Approvals to Date (F)</b>	<b>Current Approved Contract Value (G)</b>	<b>Proposed Action (H)</b>	<b>Proposed Total for Board Approval (I)</b>	<b>Proposed Contract Value (J)</b>
Contract Amount	-	-	21,000	21,000	21,000
Contingency	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>21,000</b>	<b>21,000</b>	<b>21,000</b>
Percent Contingency	0%	0%	0%	0%	0%

(B) COMMITTED TO DATE amounts are from Agency WBS Report as of July 2008 + approved and pending board actions not recorded as of 7/31/08, or submitted after that date.

## **SMALL BUSINESS PARTICIPATION**

Not applicable to this action.

## **PROJECT DESCRIPTION and BACKGROUND for PROPOSED ACTION**

In 2001, Sound Transit implemented an Owner Controlled Insurance Program (OCIP) for Sound Move capital programs. The OCIP covered most construction and final design activity that was managed directly by Sound Transit, primarily Central Link light rail. Under the OCIP program, Sound Transit purchased a “consolidated” insurance program to cover all final design and construction activity on the projects rather than the traditional approach of having the contractor bring its own insurance to cover its work. The primary benefit of the program was to insure that a uniform, high-quality insurance program covered all work on the projects. An OCIP program, if properly structured, can also be a lower-cost means of providing insurance coverage versus a traditional approach. The Sound Move OCIP program General Liability and Excess Liability, Builders Risk, and Environmental Liability insurance coverage’s will expire in 2009, with the exception of the Professional Liability Insurance, which expires in 2016. Professional Liability Insurance continues through 2016 to accommodate final design work on University Link.

In preparing for the University Link project, Sound Transit conducted an extensive review of its experience with the Sound Move OCIP program and reviewed the contracting approach for the University Link project. It was determined that an OCIP program would be the most efficient and effective means of providing insurance coverage for the project. Sound Transit incorporated the “lessons learned” from the Sound Move OCIP program in structuring OCIP for University Link. The U-Link OCIP is a “project-specific” OCIP versus a rolling OCIP that was used for Central Link.

The University Link OCIP would be limited to only the major U-Link construction contracts. Smaller U-Link contracts and the vehicle procurement contract will not be covered by the new OCIP. In addition, the proposed U-Link OCIP was designed to help address other special insurance needs for construction on the University of Washington campus.

The agency conducted a briefing with insurance industry participation in August 2008. The agency’s broker (Willis) began working with market participants in August on developing bids for the program.

## **CONSEQUENCES of DELAY**

Sound Transit began receiving OCIP bids in late August 2008 and must accept coverage on the bids within several weeks. The first construction packages for University Link that provide coverage under OCIP are to be bid starting in early October 2008.

## **PUBLIC INVOLVEMENT**

Not applicable to this action.

## **ENVIRONMENTAL COMPLIANCE**

JI, 9/4/08

**LEGAL REVIEW**

JW 9/12/08

## **SOUND TRANSIT**

### **MOTION NO. M2008-95**

A motion of the Board of the Central Puget Sound Regional Transit Authority authorizing the chief executive officer to implement an Owner Controlled Insurance Program for University Link by entering into all necessary agreements and contracts with selected insurance companies through Sound Transit's insurance broker, in an amount not to exceed \$21 million for the initial term.

#### **Background:**

In 2001, Sound Transit implemented an Owner Controlled Insurance Program (OCIP) for Sound Move capital programs. The OCIP covered most construction and final design activity that was managed directly by Sound Transit, primarily Central Link light rail. Under the OCIP program, Sound Transit purchased a "consolidated" insurance program to cover all final design and construction activity on the projects rather than the traditional approach of having the contractor bring its own insurance to cover its work. The primary benefit of the program was to insure that a uniform, high-quality insurance program covered all work on the projects. An OCIP program, if properly structured, can also be a lower-cost means of providing insurance coverage versus a traditional approach. The Sound Move OCIP program General Liability and Excess Liability, Builders Risk, and Environmental Liability insurance coverage's will expire in 2009, with the exception of the Professional Liability Insurance, which expires in 2016. Professional Liability Insurance continues through 2016 to accommodate final design work on University Link.

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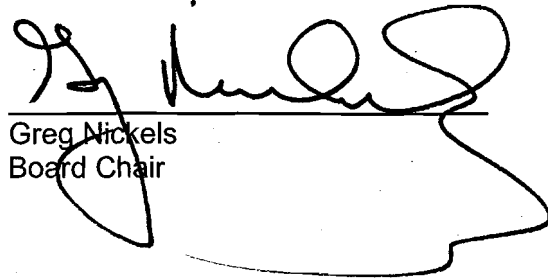
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The agency conducted a briefing with insurance industry participation in August 2008. The agency's broker (Willis) began working with market participants in August on developing bids for the program.

#### **Motion:**

It is hereby moved by the Board of the Central Puget Sound Regional Transit Authority that the chief executive officer is authorized to implement an Owner Controlled Insurance Program for University Link by entering into all necessary agreements and contracts with selected insurance companies through Sound Transit's insurance broker, in an amount not to exceed \$21 million for the initial term.

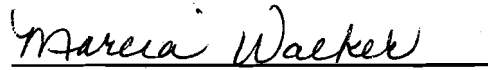
APPROVED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on September 25, 2008.



A handwritten signature in black ink, appearing to read 'Greg Nickels', is written over a horizontal line. Below the line, the text 'Greg Nickels Board Chair' is printed. The signature extends downwards and to the right, crossing the line again.

Greg Nickels  
Board Chair

ATTEST:



A handwritten signature in black ink, appearing to read 'Marcia Walker', is written over a horizontal line. Below the line, the text 'Marcia Walker Board Administrator' is printed.

Marcia Walker  
Board Administrator