SUMMARY STATEMENT

ITEM NO.       SUBJECT: RENEWAL OF DRPA/PATCO OWNER
               CONTROLLED INSURANCE PROGRAM

COMMITTEE:     New Business

COMMITTEE MEETING DATE: N/A

BOARD ACTION DATE: February 20, 2008

PROPOSAL: That the Board authorize staff to renew its Authority-wide Owner
Controlled Insurance Program (OCIP) scheduled to expire on March 7,
2008.

PURPOSE: To reduce costs on various construction and maintenance projects identified
in the capital plan over the four-year period (March 7, 2008 – March 7, 2012)
and to provide improved safety oversight and loss control for those projects.
Through the OCIP, the DRPA will procure insurance coverage for various
capital projects that will cover the DRPA and PATCO, as the owner, and all
contractors and subcontractors on enrolled projects.

BACKGROUND: Since 2000, the DRPA has used an Owner Controlled Insurance Program as
an alternative method by which to recognize and address the risks inherent
in the various construction and maintenance projects at all of its facilities,
including PATCO in a fiscally sound manner. The purpose of an OCIP is to
improve safety management and processes, lower overall costs of insurance
on projects, provide broader coverage and higher liability limits, and
centralize claims for all contractors, by having the owner (“the Authority”)
procure required coverages in bulk under coverage that allows the inclusion
of all parties involved as insureds.

During the past several months, DRPA staff has undertaken a thorough
review of the existing OCIP program that has been in place since 2004.
Working with the Graham Company and independently, staff evaluated the
performance of the program against 2003 baseline projections to identify
variances and underlying causes. Specifically, for the 2004 – 2008 OCIP,
the DRPA anticipated it would enroll contracts totaling more than $300
million of capital improvement projects, with an estimated payroll of $69
million. Based on this information, the maximum cost for the OCIP was
estimated at $13,732,700. As the Commission is aware, the Authority’s
project activity during the relevant period was severely restricted for reasons
that do not require further discussion. As a result, the Authority’s spending
during this period totaled only $33 million on projects that were enrolled in
the OCIP, with estimated payroll of $6 million – substantially less than
projected. As a result of the reduced project activity, the estimated loss on the premium investment versus the estimated cost had DRPA required its contractors to procure their own insurance was approximately $3.8 million.

In an effort to avoid any potential future loss on the return on DRPA’s investment in the OCIP, staff, in consultation with The Graham Company and DRPA’s Chief Engineer, devised a base line estimate of construction values identified in the current Five Year Capital Program. The list of projects was developed based on the level of certainty that an individual project will proceed in the next four years, 2008 - 2012. The total value associated with the identified projects is more than $383 million. Following discussions with Graham, and in view of the situation that occurred in the past four years, we agreed that they should go to market with an even more conservative estimate in the range of $250 million to $300 million. To accomplish this, Graham endeavored to have the carriers reduce the minimum premium from 100% to between 70-90%, to enable the DRPA to receive a return premium in the event that we are unable to proceed with all of the projects contemplated. However, DRPA will be charged an additional premium in the event that total payroll costs for enrolled projects exceeds the amounts estimated.

The OCIP program technically includes only Workers Compensation and General Liability lines of coverage. However, there are additional lines of coverages and services that supplement the OCIP, which the Authority has maintained since the inception of the program. The additional lines include layers of Umbrella and Excess Umbrella Liability, Contractors Pollution, Railroad Protective Liability and Builders Risk. Services include on-site Safety and Loss Control furnished by Graham, which include coordination and oversight of project safety activities.

Graham has obtained renewal quotations from the incumbent carrier AIG. Graham has indicated that AIG factored the performance under the OCIP these past four years into their quotations, and Graham assures us that we have received an extremely competitive renewal package.

The proposed OCIP premiums for Workers Compensation and General Liability are based on the following:

- Estimated Project values of $300 million
- Estimated Payroll of $69 million
• Estimated losses between $3.9 million and $6.1 million resulting from Workers Compensation and General Liability claims including Loss Conversion Factor of 10%
• Minimum Premium of 85% for Workers Compensation and General Liability
• Workers Compensation and General Liability losses are subject to a $250,000 deductible
• Workers Compensation and General Liability Premiums are paid in four annual installments

The Graham Company projects that these proposed OCIP coverages (premiums, surcharges & estimates losses under the deductible) will save the Authority $4.9 million based on anticipated savings due to contractors pricing as a result of contractors not having to obtain their own insurance. Even with potential maximum anticipated losses, Graham projects that the OCIP should save the DRPA an estimated $2.7 million.

The total renewal premium cost for the OCIP program, including Workers Compensation and General Liability only is $4,663,856, including terrorism risk and surcharges. This amount is 15% below the expiring premium. The bottom line maximum cost to the DRPA for the OCIP coverages (Workers Compensation and General Liability), including maximum losses of $6.1 million, is $10,792,618.

The proposed premiums for the additional lines of coverage and services are based on the following:

• $100 million limit under Umbrella and Excess Umbrella Layers
• $50 million limit under Contractors Pollution Liability
• $100 million limit under Railroad Protective Liability (PATCO only) based on $161 million of PATCO projects
• Builders Risk policy based on estimated project values of $300 million
• Fixed Safety Services Cost of $700,000 based on estimated project values of $300 million

The limits of the Umbrella/Excess Umbrella, Contractors Pollution, Railroad Protective Liability and Builders Risk were determined based on estimated
project values, value of Authority assets, overall risk exposures and other insurance policies procured by the Authority.

The total renewal cost for the above stated additional lines of coverage and safety services is $2,538,839, which is 12% less than the expiring premium cost.

The Authority will also be required to renew its current letters of credit for $7 million and may be required to furnish additional collateral based on AIG's review of the DRPA's interim financial statements. At inception, an additional Escrow amount (prepaid loss fund) of $250,000 will be required.

### SUMMARY:

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<th>Amount</th>
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<tbody>
<tr>
<td>Total OCIP Premium Cost Not to Exceed $4,663,856</td>
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<tr>
<td>Total Maximum Losses Not to Exceed $6,128,762</td>
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<tr>
<td>Total Maximum OCIP Costs Including Losses $10,792,618</td>
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<tr>
<td>Total Cost for Additional Lines of Coverage &amp; Services Not to Exceed $2,538,839</td>
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<tr>
<td>Total Overall Cost Not to Exceed $13,331,457</td>
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Estimated Costs Associated with Collateral Requirements:
- Escrow $250,000
- Letter of Credit $100,000

Source of Funds: 1999 Revenue Bonds/General Fund
Capital Project #: OCIP08
Operating Budget: N/A
Master Plan Status: N/A
Other Fund Sources: N/A
Duration of Contract: March 7, 2008 - March 7, 2012
Other Parties Involved: The Graham Company, AIG Insurance Companies
RESOLUTION

RESOLVED: That the Board of Commissioners authorize staff to renew the Authority’s Owner Controlled Insurance Program, for a four-year period beginning March 7, 2008 to enable the Authority to maintain or improve safety performance, and to reduce projected project costs by purchasing bulk insurance coverage for DRPA and PATCO, as well as all contractors on OCIP-enrolled projects in a manner consistent with the attached Summary Statement, supplemental attachments, if any, and the Renewal Proposal submitted to the Authority by its brokers, The Graham Company; and be it further

RESOLVED: That the Board of Commissioners of the Delaware River Port Authority hereby authorize renewal of the Authority’s Umbrella/Excess Umbrella, Contractors Pollution, Railroad Protective Liability and Builders Risk policies, and Safety and Loss Control Service Agreement on the basis set forth in the attached Summary Statement, supplemental attachments, if any, and the Renewal Proposal submitted to the Authority by its brokers, The Graham Company; and be it further

RESOLVED: That the Board of Commissioners of the Delaware River Port Authority hereby authorize the renewal of the Authority’s Owner Controlled Insurance Program in a manner consistent with the attached Summary Statement, supplemental attachments, if any, and the Renewal Proposal submitted to the Authority by its brokers at the Graham Company; and be it further

RESOLVED: That the Chairman, Vice Chairman and the Chief Executive Officer must approve and are hereby authorized to approve and execute all necessary agreements, contracts, or other documents on behalf of the DRPA. If such agreements, contracts, or other documents have been approved by the Chairman, Vice Chairman and Chief Executive Officer and if thereafter either the Chairman or Vice Chairman is absent or unavailable, the remaining Officer may execute the said document(s) on behalf of DRPA along with the Chief Executive Officer. If both the Chairman and Vice Chairman are absent or unavailable, and if it is necessary to execute the said document(s) while they are absent or unavailable, then the Chief Executive Officer shall execute such documents on behalf of DRPA.

SUMMARY: Amount: Total OCIP Premium Cost Not to Exceed $4,663,856
Total Maximum Losses Not to Exceed $6,128,762
Total Maximum OCIP Costs Including Losses $10,792,618
Total Cost for Additional Lines of Coverage & Services Not to Exceed $2,538,839
Total Overall Cost Not to Exceed $13,331,457

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Escrow $250,000
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