SUMMARY STATEMENT

ITEM NO.: DRPA-14-052

SUBJECT: DRPA/PATCO Owner Controlled Insurance Program Policy Extensions, 6/30/2014 and 9/30/2014 to 12/31/2014

COMMITTEE: Finance

COMMITTEE MEETING DATE: April 2, 2014

BOARD ACTION DATE: April 16, 2014

PROPOSAL: Staff seeks Board authorization to extend seven (7) OCIP policies. Six of the policies are placed with AIG. The remaining policy – the Builders’ Risk Policy – is placed with Hiscox, a Lloyds of London syndicate.

The seven (7) policies include:

1. Primary General Liability
2. Primary Workers’ Compensation
3. Lead Excess Layer - $25M Limit
4. First Excess Layer - $25M to $25M
5. Railroad Protective Liability
6. Contractors’ Pollution Legal Liability
7. Builders’ Risk Policy

The six (6) policies placed with AIG will expire on June 30, 2014, the original projected completion date for all previously enrolled OCIP construction projects. The seventh policy – the Builders’ Risk Policy – with Hiscox will expire on September 30, 2014.

Earlier this year, staff was advised by Engineering that the enrolled OCIP project, PATCO 48-2011 (Escalator/Elevator Replacement) may not be completed by the expiration of the OCIP Broker/Consultant Agreement. It is anticipated that this project may not be completed until sometime in 2015. Therefore, it will be necessary to extend the current OCIP policies that will expire on June 30, 2014 and September 30, 2014 to December 31, 2014. After this final extension expires on 12/31/2014, the contractors will be required to provide Certificates of Insurance for the necessary insurance coverage. If approved, the terms and conditions for the extended policies will remain the same. All premiums will be net of commission and will include TRIA and the NJ PLIGA tax (where applicable).
PURPOSE: Through the OCIP, the DRPA provides insurance coverage for the various capital projects. Continuation of this coverage protects DRPA and PATCO, as the owner, and all contractors and subcontractors on these projects.

BACKGROUND: Since 2000, the DRPA has used an Owner Controlled Insurance Program (OCIP) 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. Through the OCIP, the DRPA provides insurance coverage for qualifying construction and maintenance capital projects. The DRPA secures broad coverage and higher liability limits. The broad coverage allows the inclusion of all parties involved as insured.

To allow for the completion of capital projects that were previously enrolled in the 2008-2012 OCIP, the Board, on August 1, 2012, extended the OCIP for 14 months or until June 30, 2014. Under DRPA-13-009, the Board authorized the extension of seven OCIP policies until June 30, 2014.

One final policy, the Builder’s Risk Policy, was extended to September 30, 2014, which was approved by the Board.

With extensions in place for all seven OCIP policies, staff seeks authorization from the Board for one final extension of all policies. If approved, the seven policies will be extended to expire on December 31, 2014. After this final extension expires on 12/31/2014, the contractors will be required to provide Certificates of Insurance for the necessary insurance coverage.

Our broker presented staff with the following estimated extension premium quotes:

- Primary General Liability (AIG)  
  Estimated Premium - $14,960
- Primary Worker’s Compensation (AIG)  
  Estimated Premium - $10,465
- Lead Excess Liability - $25M layer (AIG)  
  Estimated Premium - $54,000
- First Excess Layer – $25M to $25M (AIG)
Estimated Premium - $27,000

- Second Excess Layer (AIG) - $50M xo $50M (AIG)
  A reinsurance treaty restriction in place since 2/2008 restricts the length of time that AIG may be on the risk for the $50M xo $50M layer. Given the size and scope of the remaining OCIP-enrolled projects (WWB-12-2009/WWB redecking project and PATCO 48-2011 Escalators and Elevators Replacement), our broker has determined that a total limit of $50M is the norm for projects with construction values between $50-$100M.

- Railroad Protective Liability (AIG)
  Estimated Premium – $101

- Contractors’ Pollution Legal Liability (AIG)
  Estimated Premium - $22,050

- Builders Risk Policy (Hiscox, a Lloyds syndicate)
  Estimated Premium - $8,193

The total estimated premium for all seven (7) policies will be $136,769. All premiums are net of commission, and include TRIA (where applicable), and also the NJ PLIGA tax, (where applicable).

AIG required DRPA to issue Letters of Credit (“LOC”) for the 2008-2012 term valued at approximately $10.5 million. The LOC was subsequently reduced to $5.2 million due to the resolution of claims associated with the 2000-2004 and 2004-2008 OCIPs. The term of LOC was extended through December 31, 2014. The DRPA may be required to renew its current LOCs to cover the policy terms through December 31, 2014 and beyond to cover any remaining open claims. DRPA may also be required to furnish additional collateral based on AIG’s review of the DRPA's financial statements.

Staff recommends that the current seven (7) OCIP policies be extended from June 30, 2014 to December 31, 2014, for the total estimated extension premium of $136,769 with AIG Companies and Hiscox, a Lloyds of London Syndicate. The extension premiums will include TRIA (where applicable), and will include the NJ PLIGA tax, (where applicable).
SUMMARY STATEMENT
Finance 4/2/2014

DRPA/PATCO Owner Controlled
Insurance Program Policy
Extensions June 30, 2014 and
September 30, 2014 to December
31, 2014

SUMMARY:
Amount: Estimated total extension premiums of
$136,769, including TRIA, (where applicable), and including the NJ
PLIGA tax, (where applicable)

Source of Funds: General Fund
Capital Project #: OCIP08
Operating Budget: N/A
Master Plan Status: N/A
Other Fund Sources: N/A
Duration of Contract: June 30, 2014-December 31, 2014
LOCs through a date to be determined
Other Parties Involved: Turner Surety and Insurance Brokerage,
Inc., AIG Insurance Companies, Hiscox, a
Lloyds of London Syndicate
RESOLUTION

RESOLVED: That the Board authorizes staff to extend the current seven (7) OCIP policies from June 30, 2014 to December 31, 2014, which includes the Primary General Liability (estimated $14,960), Primary Workers’ Compensation (estimated $10,465), Lead Excess Layer-$25M limits (estimated $54,000), First Excess Layer-$25M to $25M (estimated $27,000), Railroad Protective (estimated $101.00), Contractors’ Pollution Legal Liability (estimated $22,050) and the Builders’ Risk policy (estimated $8,193) for a total estimated extension premium of $136,769 (net of commission), including TRIA (where applicable), and including the NJ PLIGA tax (where applicable), under the same terms and conditions with the incumbent carriers, AIG and Hiscox; and be it further;

RESOLVED: That the Board authorizes staff to extend the Letters of Credit for the 2008-2013 OCIP for a date yet to be determined; 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: Estimated total extension premiums of $136,769, including TRIA (where applicable), and including the NJ PLIGA tax (where applicable)

Source of Funds: General Fund

Capital Project #: OCIP08

Operating Budget: N/A

Master Plan Status: N/A

Other Fund Sources: N/A

Duration of Contract: June 30, 2014-December 31, 2014

LOCs through a date to be determined

Other Parties Involved: Turner Surety and Insurance Brokerage, Inc., AIG Insurance Companies, Hiscox, a Lloyds of London Syndicate