

Item 6
File 11-1033

Department:
 Department of Public Works (DPW)
 Department of Public Health – Laguna Honda Hospital

EXECUTIVE SUMMARY
Legislative Objectives

- Resolution authorizing the Director of Public Works (DPW) to execute the Sixth Amendment to an agreement with Willis Insurance Services of California, Inc., for the Laguna Honda Hospital Replacement Program Owner Controlled Insurance Program (OCIP), increasing the amount by \$1,940,467, from \$15,382,933 to \$17,323,400, and extending the term by 19 months from December 31, 2011 to July 31, 2013.

Key Points

- The Laguna Honda Hospital Replacement Program is a project to construct a new hospital and related improvements. The original budget was \$401,600,000 and the original completion date was December 1, 2009. As of June 30, 2011 the Laguna Honda Hospital Replacement Program budget is \$584,946,602 and the revised completion date is December 31, 2012. The new hospital opened in December 2010. The remodel of the C wing and H wing of the existing facilities, including hazardous materials abatement, is estimated to be completed by December 31, 2012.
- The Owner Controlled Insurance Program (OCIP) is a master-controlled insurance program insuring the Laguna Honda Hospital Replacement Program contractors and subcontractors as described on page 4 of this report. The Department of Public Works (DPW) entered into a four-year agreement with Willis Insurance Services, from June 30, 2005 to June 30, 2009, to administer the OCIP, including the procurement of the needed insurance policies. The original agreement amount was not-to-exceed \$9,051,625. DPW has entered into five subsequent amendments to the OCIP agreement, extending the agreement term by 30 months, from June 30, 2009 through December 31, 2011 and increasing the total agreement amount by \$6,331,308, from not-to-exceed \$9,051,625 to not-to-exceed \$15,382,933.
- The proposed resolution would approve the Sixth Amendment to the OCIP agreement between DPW and Willis Insurance Services to (a) extend the term by 19 months from December 31, 2011 to July 31, 2013, and (b) increase the total amount by \$1,940,467, from not-to-exceed \$15,382,933 to not-to-exceed \$17,323,400. According to Mr. John Thomas, Laguna Honda Hospital Replacement Program Manager, DPW is proposing an amendment to the existing agreement rather than issuing a Request for Qualifications (RFQ) for a new agreement because (a) issuing a new RFQ would delay the project and (b) a new insurance company would likely charge higher rates for assuming coverage of the existing project.
- According to Mr. Thomas, the remodel of the C and H wings are the only remaining Laguna Honda Hospital Replacement Program construction projects covered by the OCIP agreement. According to Mr. Thomas, “there are no plans to extend the remodel schedule or the OCIP past December 31, 2012.” The proposed ending date of the agreement, July 31, 2013, includes six months of closeout services after the project improvement work has been completed.

Fiscal Impact

- The proposed increase of \$1,940,467 in the OCIP agreement would be funded by Laguna Honda Hospital Replacement Program funds, previously appropriated by the Board of Supervisors.
- The proposed resolution authorizes the Director of Public Works to execute an amendment to the existing OCIP agreement to increase the not-to-exceed amount from \$15,279,662 to \$17,323,400. However, the actual amount of the existing OCIP agreement is not-to-exceed \$15,382,933. Therefore, the proposed resolution should be amended to reflect the actual existing amount of not-to-exceed \$15,382,933.

Recommendations

- Amend the proposed resolution to state: “Resolution authorizing the Director of Public Works to execute ~~an~~ the Sixth ~~a~~Amendment to the Owner Controlled Insurance Program for the Laguna Honda Hospital Replacement Program from the not-to-exceed amount of ~~\$15,279,662~~\$15,382,933 to \$17,323,400.”
- Approve the proposed resolution, as amended.

MANDATE STATEMENT & BACKGROUND

San Francisco Charter Section 9.118 requires that all agreements over \$10,000,000, or amendments to such agreements in excess of \$500,000, be subject to Board of Supervisors approval.

Laguna Honda Hospital Replacement Program

The Laguna Honda Hospital Replacement Program comprises (1) the demolition of Clarendon Hall, improvements to the new hospital site and construction of the new hospital, and the remodel of two existing facilities (the “C” and “H” wings); and (2) hazardous abatement and demolition of the D, E, F, G, K, L, M, and O wings of the existing facilities.

The original Laguna Honda Hospital Replacement Program budget was \$401,600,000 and the original completion date was December 1, 2009. As of June 30, 2011 the Laguna Honda Hospital Replacement Program budget is \$584,946,602 and the estimated completion date is December 31, 2012. As of June 30, 2011, the Laguna Honda Hospital Replacement Program had expended \$513,427,771.

The Laguna Honda Hospital Replacement Program has completed demolition of Clarendon Hall and construction of the new hospital, which opened in December 2010. The Laguna Honda Hospital is currently remodeling the H wing and has submitted revised plans to the Office of Statewide Health Planning and Development (OSHPD) to reduce or eliminate additional H wing remodel work as well as reduce or eliminate remodel work for the C wing. Hazardous abatement and demolition of the D, E, F, G, K, L, M, and O wings are a separate phase of the Laguna Honda Hospital Replacement Program.

The Owner Controlled Insurance Program

In order to contain Laguna Honda Hospital Replacement Program costs, the City developed the Owner Controlled Insurance Program (OCIP), which is a master-controlled insurance program covering Laguna Honda Hospital Replacement Program contractors and subcontractors as described on Page 3 of this report. According to Mr. John Thomas, Laguna Honda Hospital Replacement Program Manager, the OCIP obtains reduced insurance rates by purchasing insurance on behalf of the Laguna Honda Hospital Replacement Program contractors and subcontractors, rather than each contractor or subcontractor purchasing insurance separately.

The Department of Public Works (DPW) entered into a four-year agreement with Willis Insurance Services, from June 30, 2005 to June 30, 2009, to administer the OCIP, including contracting with insurance providers to provide insurance coverage, as described on page 4 of this report, to Laguna Honda Hospital Replacement Program contractors and subcontractors. The original agreement amount was not-to-exceed \$9,051,625. As discussed below, DPW has entered into five subsequent amendments to the OCIP agreement, extending the agreement term by 30 months, from June 30, 2009 through December 31, 2011 and increasing the total agreement

amount by \$6,331,308, from a not-to-exceed amount of \$9,051,625 to a not-to-exceed amount of \$15,382,933.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the Sixth Amendment to the OCIP agreement between the City and Willis Insurance Services of California to (a) extend the term by 19 months from December 31, 2011 to July 31, 2013, and (b) increase the total amount by \$1,940,467, from a not-to-exceed amount of \$15,382,933 to a not-to-exceed amount of \$17,323,400.

According to Mr. Thomas, DPW is proposing an amendment to the existing agreement rather than issuing an RFQ for a new agreement because (a) issuing a new RFQ would delay the project and (b) it is unlikely that another insurance company would take over an existing contract without charging substantially more to insure what, to them, would be an unknown risk

According to Mr. Thomas, the remodel of the C and H wings are the only remaining Laguna Honda Hospital Replacement Program construction projects covered by the OCIP, with an estimated completion date of December 31, 2012. The hazardous abatement and demolition work of the D, E, F, G, K, L, M, and O wings are not included in the OCIP. Mr. Thomas states that “there are no plans to extend the remodel schedule or the OCIP past December 31, 2012.”

The OCIP includes Broker Services, premium taxes and miscellaneous fees and the following insurance coverage:

- (a) Workers Compensation to provide coverage for the contractors’ and subcontractors’ employees, in compliance with State contractor license requirements;
- (b) General Liability to protect the City and the contractors and sub-contractors against liability claims for bodily injury and property damage arising out of premises, operations, products, and completed operations; and advertising and personal injury liability;
- (c) Excess Liability to provide excess coverage above and beyond the General Liability policy;
- (d) Contractors Pollution Liability, which is a contractor-based policy that provides third party coverage for bodily injury, property damage, defense, and clean up as a result of pollution conditions (sudden/accidental and gradual) arising from contracting operations performed by or on behalf of the contractor; and
- (e) Builder’s Risk, which indemnifies the City and contractors against damage to buildings during the course of construction, including a person's or organization's insurable interest in materials, fixtures and/or equipment being used in the construction or renovation of a building or structure should those items sustain physical loss or damage from a covered cause.

Original OCIP Agreement and Amendments

The original agreement with Willis Insurance Services of California, Inc. was awarded based on a competitive Request for Qualifications (RFQ) process and was executed by the Department of

Public Works (DPW) on May 26, 2005. The original agreement in the amount not-to-exceed \$9,051,625 was for the four-year period from June 30, 2005 through June 30, 2009, the original estimated completion date of the Laguna Honda Hospital Replacement Program. The original agreement between DPW and Willis Insurance Services was not subject to Board of Supervisors approval because it was less than \$10,000,000.

The First Amendment to the agreement, dated May 7, 2008, extended the coverage term from June 30, 2009 to October 31, 2009, and increased the Builder's Risk premiums by \$426,025, from \$563,449 to \$989,474, to pay for the extended coverage term. The total cost of the agreement was increased from not-to-exceed \$9,051,625 to not-to-exceed \$9,477,650 and was not subject to Board of Supervisors approval because the increase was less than \$500,000 and the total agreement amount was less than \$10,000,000.

The Second Amendment to the agreement, dated May 22, 2009, increased the premiums for Workers Compensation, General Liability and Excess Liability by \$468,278, due to the extension of the coverage term in the First Amendment, from June 30, 2009 to October 31, 2009. Total agreement costs increased from not-to-exceed \$9,477,650 to not-to-exceed \$9,945,928. The Second Amendment was not subject to Board of Supervisors approval because the increase was less than \$500,000 and the total agreement amount was less than \$10,000,000.

The Third Amendment to the agreement was approved by the Board of Supervisors on July 28, 2009 (File 09-0856). The Third Amendment (a) extended the term by 26 months from October 31, 2009 to December 31, 2011¹, and (b) increased the premiums for Workers Compensation, General Liability, Excess Liability, Pollution Liability, Builder's Risk, and related taxes and services by \$5,304,145 to pay for the increase in construction costs and extended term. The total cost of the OCIP program was increased by \$5,304,145 from not-to-exceed \$9,945,928 to not-to-exceed \$15,250,073.

The Fourth Amendment to the agreement, dated May 3, 2010, (a) increased the premiums for Builder's Risk by \$73,306 to account for changes to the different phases of the construction schedule and (b) decreased the brokerage service fees of \$822,653 by \$5,494 to \$817,159 to comply with the Mayor's request to contractors to reduce their fees during the City's budget shortfall for FY2009-10. The total cost of the agreement had a net increase of \$67,811 (\$73,305 less \$5,494) from \$15,250,073 to \$15,317,884. The Fourth Amendment was not subject to Board of Supervisors approval because the increase was less than \$500,000.

The Fifth Amendment to the agreement, dated September 9, 2010, increased the premiums for the Builder's Risk by \$65,049 to account for changes to the different phases of the extended construction schedule. The total agreement increased \$65,049 from the not-to-exceed amount of \$15,317,884 to the existing not-to-exceed amount of \$15,382,933. The Fifth Amendment was not subject to Board of Supervisors approval because the increase was less than \$500,000.

¹ For the original agreement and the first two extensions, six months of close-out services after completion of the project were not included in the "term" of the agreement. In the text of the Third Amendment, and all following amendments, the six months of close-out services were included in the extended term of the agreement.

FISCAL IMPACTS

The OCIP is funded from Laguna Honda Hospital Replacement Program funds, consisting of General Obligation Bond monies and Certificate of Participation proceeds, interest earnings, and State Tobacco Settlement revenues. The subject proposed amendment to the agreement between DPW and Willis Insurance Services would increase the not-to-exceed amount by \$1,940,467 from the existing not-to-exceed amount of \$15,382,933 to a new not-to-exceed amount of \$17,323,400.

The following table lists the additional amounts of insurance and brokerage fees being requested for the total increase of \$1,940,467.

Insurance	Current Contract Amount	Additional Amount Requested for Modification #6	Percent Increase	Modified Cumulative Contract Amount thru Modification #6
Workers Compensation	\$7,908,125	\$1,163,540	14.7%	\$9,071,665
General Liability	2,630,952	337,538	12.8%	2,968,490
Subtotal, Workers Compensation and General Liability	10,539,077	1,501,078	14.2%	12,040,155
Excess Liability	1,794,500	309,700	17.2%	2,104,200
Pollution Liability	206,270	10,313	5.0%	216,583
Builder's Risk	1,767,911	45,000	2.5%	1,812,911
Taxes and Fees	258,017	14,696	5.7%	272,713
Brokers' Fees	817,158	59,680	7.3%	876,838
Total	\$15,382,933	\$1,940,467	12.6%	\$17,323,400
Term of the Agreement in Months	80	19	23.8%	99

The proposed increase in premium rates are based on the following criteria:

- The combined General Liability and Workers Compensation premium rate equals \$11.11 per \$100 of Workers Compensation payroll from July 1, 2011 through January 31, 2013, which was the premium rate for the prior agreement term from July 5, 2009 through June 30, 2011. Total premium amounts are based on total Workers Compensation payroll for the entire agreement term from July 1, 2005 through January 31, 2013. Therefore, total premium amounts for General Liability and Workers Compensation of \$12,040,155 are based on estimated Workers Compensation payroll of \$96,113,000 from July 1, 2005 through January 31, 2013². According to the proposed Sixth Amendment, final Workers

² The total combined General Liability and Workers Compensation premium amounts for the period from June 30, 2005 through January 31, 2013 are based on total Workers Compensation payroll of \$96,113,000 and premium rates of \$13.11 per \$100 of Workers Compensation payroll from June 30, 2005 through July 4, 2009, and \$11.11 per \$100 of Workers Compensation payroll from July 5, 2009 through January 31, 2013.

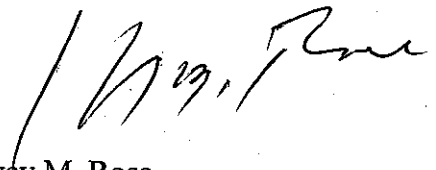
Compensation and General Liability premium amounts are based on the applicable premium rates multiplied by the total audited Workers Compensation payroll under the OCIP.

- The Excess Liability and Pollution Liability are flat, non-adjustable premiums that are increased only as a function of the extension of the term.
- The Brokers' Fees, totaling \$876,838 for the agreement term from July 1, 2005 through January 31, 2013, equal approximately 5.0 percent of the total agreement amount of \$17,323,400. The Brokers' Fees include six months of close-out services following the completion of the project improvement work on January 31, 2013, resulting in an agreement ending date of July 31, 2013.
- Builder's Risk is based upon the length of the agreement and the value of the work completed. The agreement term is being extended by 19 months, and the remaining construction work includes the remodel of the C and H wings. The proposed resolution would increase the Builder's Risk premium \$45,000, or 2.5 percent.

The proposed resolution authorizes the Director of Public Works to execute an amendment to the existing OCIP agreement to increase the not-to-exceed amount from \$15,279,662 to \$17,323,400. However, the actual amount of the existing OCIP agreement is not-to-exceed \$15,382,933. Therefore, the proposed resolution should be amended to reflect the actual existing amount of not-to-exceed \$15,382,933

RECOMMENDATIONS

1. Amend the proposed resolution to state: "Resolution authorizing the Director of Public Works to execute ~~an~~ the Sixth ~~a~~Amendment to the Owner Controlled Insurance Program for the Laguna Honda Hospital Replacement Program from the not-to-exceed amount of ~~\$15,279,662~~\$15,382,933 to \$17,323,400."
2. Approve the proposed resolution, as amended.



Harvey M. Rose

cc: Supervisor Chu
Supervisor Mirkarimi
Supervisor Kim
President Chiu
Supervisor Avalos
Supervisor Campos
Supervisor Cohen
Supervisor Elsbernd
Supervisor Farrell
Supervisor Mar
Supervisor Wiener
Clerk of the Board
Cheryl Adams
Controller
Rick Wilson