

# TORONTO TRANSIT COMMISSION REPORT NO.

**MEETING DATE** July 14, 2010

**SUBJECT** NOTICE OF AWARD - PROCUREMENT AUTHORIZATION  
CONSTRUCTION PROJECT INSURANCE  
SHEPPARD EAST LRT

## **INFORMATION ITEM**

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### **RECOMMENDATION**

It is recommended that the Commission

1. Receive the notice of award of Chair Giambrone, Vice-Chair Mihevc and the Chief General Manager awarding the procurement of project insurance for the construction of the Sheppard East LRT to Aon Reed Stenhouse Inc. in the preliminary upset limit amount of \$6,954,074, inclusive of taxes; and
2. Note that savings have been achieved since the report was written and approved, reducing the upset limit to \$6,101,996, inclusive of taxes.

### **FUNDING**

Funding for the provision of these services is included in the Sheppard East LRT projects outlined under Transit City approved priority projects in the TTC 2010-2014 Capital Program as amended by the Commission on October 29, 2009 and adopted by the City of Toronto Council on December 8, 2009. Project commitment approval of \$190.232 million was included for the Sheppard East LRT line to cover incurred expenditures to the end of 2010.

### **BACKGROUND**

At its meeting of March 24, 2010, the Commission approved revisions and updates to the Authorization for Expenditures and Other Commitments Policy, which states that *'The Commission delegates authority to the Chair, Vice-Chair and the Chief General Manager to authorize items on an interim basis that would normally be authorized by the Commission when the approval is required before the next Commission meeting. In the event that the Chair and/or Vice-Chair are not available, authority would be delegated to any two (2) Commissioners and the Chief General Manager.'* These authorizations are to be followed up by a notice of award Commission report that is to be submitted to the next scheduled Commission meeting for information.

Aon Reed Stenhouse Inc. (Aon) was awarded a contract in early 2008 for the provision of comprehensive insurance brokerage services for a five year period commencing March 1, 2008, with an option for an additional two years at the end of the five year term. Aon was selected on the basis of lowest priced qualified proposal after a competitive public request

for proposals.

For the construction of the Sheppard East LRT and on behalf of Metrolinx (as Owner), the Commission will be providing project specific Builders Risk property insurance, Wrap Up liability insurance and Environmental Impairment liability insurance to all parties involved in the project for the term of construction (2010 to 2013). This is known as an Owner Controlled Insurance Program (OCIP), which will be purchased through Aon.

The primary advantage of an OCIP is increased control and a uniform risk management program. However, there are additional benefits including:

- The owner (Metrolinx) and program manager (TTC) have direct control over all aspects of the insurance program including limits, deductibles, terms and conditions, exclusions, as well as claims handling.
- Provides uniform coverage and eliminates the uncertainty of what may or may not be covered under a contractor's policy, as well as eliminates the administrative burden of ensuring that contractors have current adequate insurance through the life of the project.
- Cost savings because it eliminates contractor's mark up and the disputes between insurers in settling claims.
- Ability to obtain higher insurance limits and at a better price as a result of the owner's buying power. The typical contractor or subcontractor has liability coverage in the \$1 million to \$2 million range.
- Lower cost of risk and protection from catastrophic loss by obtaining higher limits of liability insurance.
- More efficient project management and administration.

At a March 10, 2010 meeting between Metrolinx and Commission staff, Metrolinx agreed that the Commission would procure project insurance for the construction of the Sheppard East LRT structured as an owner controlled insurance program.

## **DISCUSSION**

The initial policy period quoted was June 30, 2010 to December 31, 2013 (42 months). However, Metrolinx had requested that TTC investigate two other options including extended policy periods from June 30, 2010 to December 31, 2014 (54 months) and June 30, 2010 to June 30, 2015 (60 months).

After review of the quotes received from Aon, Metrolinx has advised that the policy term should be from June 30, 2010 to June 30, 2015.

The following summarizes the owner controlled insurance program that Aon has arranged to commence June 30, 2010.

Builders Risk

Policy term:	June 30, 2010 to June 30, 2015
Limit:	\$200,000,000
Deductibles:	3% or \$250,000 minimum Flood
	3% or \$250,000 minimum Earthquake
	\$ 500,000 Tunnelling(and TBM, if applicable), except
	\$ 1,000,000 for SEM (NATM) method
	\$ 250,000 Testing & Commissioning, Design
	\$ 150,000 All other losses
Premium:	\$ 3,676,643

Builders Risk insurance is a form of property insurance that covers property owners and builders for projects under construction, renovation or repair. It is first party coverage intended to extend to all property wherever located, part of or to be part of the project, including while in transit. Builders Risk provides coverage on an "all risks" basis, including theft and vandalism, for accidental losses, damage, or destruction of property for which the insured has an insurable interest.

Wrap Up Liability

Policy term:	June 30, 2010 to June 30, 2015
Limit:	\$150,000,000
Deductible:	\$ 100,000
Includes 24 months completed operations	
Premium:	\$ 1,576,760

Wrap Up Liability insurance is a project specific third party liability policy intended to cover all of the parties involved in the project for both property damage and bodily injury. This policy includes coverage for non-owned automobile liability as well as broad form property damage and completed operations including damage to the project itself during completed operations.

Environmental Impairment Liability

Policy term:	June 30, 2010 to December 31, 2015
Limit:	\$25,000,000
Deductible:	\$ 25,000
Premium:	\$ 396,593

(Note: An additional 6 months is added to the policy term as the insurer prefers not to extend the coverage at time of expiry.)

Environmental Impairment Liability includes; on-site clean up of new pollution conditions

arising out of the project, third party coverage for off-site clean up resulting from new pollution conditions, and third party coverage for on-site and off-site bodily injury and property damage from new pollution conditions. Additionally, the policy includes coverage for unknown pre-existing conditions subject to satisfactory review of Environmental Site Assessments.

The original report received by the Chair, Vice Chair and Chief General Manager outlined the proposed insurance program for the construction of the Sheppard East LRT project and the upset limit was based on estimates prior to receiving the actual quotes. This has now been finalized, the quotes have been received for each of the three policies and the premiums are lower than estimated resulting in a revised upset limit of \$6,101,996.

**JUSTIFICATION**

The award of this contract will allow the project to proceed and to protect the Commission and Metrolinx from losses arising out of the construction of the Sheppard East LRT through the transfer of insurable risks to third parties.

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July 14, 2010  
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