



## STAFF REPORT ACTION REQUIRED

### Procurement Authorization for the Extension of Project Specific Insurance for the Toronto-York Spadina Subway Extension

<b>Date:</b>	November 23, 2015
<b>To:</b>	TTC Board
<b>From:</b>	Chief Executive Officer

#### Summary

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The purpose of this report is to seek the Board's authorization to extend the project specific insurance for the Toronto-York Spadina Subway Extension from its current expiry of December 1, 2015 to December 31, 2017. The continuation of insurance coverage for the project is necessary to allow the project to proceed and to protect the TTC from losses arising out of the construction and commissioning of the Toronto-York Spadina Subway Extension through the transfer of insurable risks to third parties.

#### Recommendations

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**It is recommended that:**

1. The Board authorize the extension of project specific insurance coverage for the construction of the Toronto-York Spadina Subway Extension, through the TTC's insurance broker, Jardine Lloyd Thompson Canada Inc. (JLT), which includes Builders Risk property insurance, Wrap Up liability insurance and Environmental Impairment liability insurance, in the upset amount of \$7,799,708 inclusive of tax.

#### Implementation Points

Staff have been working with TTC's insurance broker to negotiate the extension of the Builders Risk property, Wrap Up liability and Environmental Impairment liability policies with the insurers for several months including the provision of additional information to the insurers and a site tour which took place on October 8, 2015.

JLT has negotiated pricing for the extension as described below. Once the Board provides authorization for the extension of the policies, staff will provide binding instructions to JLT to secure insurance coverage for the remainder of the construction.

Upon completion of the project, TTC is required to report the final hard construction costs to the insurers to calculate any final adjustment in premiums.

Once the extension is fully operational, these assets will be insured under TTC's corporate property program.

## **Financial Summary**

Sufficient funds for this expenditure are included in the TTC's 2015-2024 Capital Program as approved by the Board March 26, 2015 and by Council March 31, 2015. Funding for this expenditure is included in the Toronto-York Spadina Subway Extension Project (Category – Expansion), as referenced in the 2015-2024 Capital Program books noted on pages 1035-1037.

The Chief Financial & Administration Officer has reviewed this report and agrees with the financial impact information.

## **Accessibility/Equity Matters**

There are no accessibility or equity issues associated with this report.

## **Decision History**

A previous report dated October 29, 2009 to the Board seeking authorization to purchase project specific insurance for the Toronto-York Spadina Subway Extension (TYSSE) was approved. The report provides the rationale for proceeding with an owner controlled insurance program for TYSSE as well as a brief summary of the coverage afforded by the insurance policies.

[http://www.ttc.ca/About\\_the\\_TTC/Commission\\_reports\\_and\\_information/Commission\\_meetings/2009/October\\_29\\_2009/Supplementary\\_Reports/TYSSE\\_Project\\_Insura.pdf](http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2009/October_29_2009/Supplementary_Reports/TYSSE_Project_Insura.pdf)

An additional report to the Board, dated November 17, 2009, summarized the final outcome of the procurement of project specific insurance for the TYSSE as directed by the Board.

[http://www.ttc.ca/About\\_the\\_TTC/Commission\\_reports\\_and\\_information/Commission\\_meetings/2009/November\\_17\\_2009/Reports/Notice\\_of\\_Award\\_Proc.pdf](http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2009/November_17_2009/Reports/Notice_of_Award_Proc.pdf)

## **Issue Background**

Project specific insurance for the TYSSE must be maintained for the duration of the construction. The maintenance of insurance is not only a contractual obligation with the many contractors involved in the project but also with third parties with whom the TTC has entered into binding agreements.

The original procurement was for a 5 year period with the Builders Risk property and Wrap Up liability policies expiring on December 1, 2015. The Environmental Impairment liability policy expires on June 3, 2016.

The TTC contracts with an insurance broker who acts as an intermediary to facilitate the purchase of insurance. After a competitive public request for proposals, JLT was awarded a contract on March 1, 2015 for the provision of insurance brokerage services for a three year period.

The TYSSE project team have been an integral part of the renewal process providing JLT with up-to-date information about the project to allow the insurers to understand the status of the project and plans for completion.

## Comments

To recap, the original placement of the owner controlled insurance program for TYSSE can be summarized as follows:

Coverage Type	Term
Builders Risk Property	November 3, 2009 – December 1, 2015
Wrap Up Liability	November 3, 2009 – December 1, 2015
Environmental Impairment Liability	November 3, 2009 – June 3, 2016

As the construction of the Spadina Subway Extension is ongoing, the continuation of insurance coverage for the project is necessary. There are two components that need to be addressed: 1) the extension of coverage to December 31, 2017 based on the expected completion date (i.e. time on risk for the insurers), and 2) the adjustment of hard construction costs to the current estimated values.

Both the Builders Risk property policy and the primary layer only of the Wrap Up liability policy (first \$25 million in limits) are subject to adjustment based on final hard construction costs (which means that at the end of the project the final hard construction costs will be reported to the insurers and an additional premium will be charged). Hard construction costs are those costs related to the construction of the project that would reoccur as a result of a loss, e.g. fire.

For the extension, JLT approached the insurers with the goal to save premium dollars where possible, maintaining relationships, and limiting the impact of potential increases sought by the market while still maintaining the current coverage in place. The extension presented some challenges as a result of the increase in hard construction costs, additional project time and insured losses on file. The coordinated efforts of TTC and JLT in scheduling site visits to provide first-hand knowledge and confidence in the project and connecting the insurers directly with the project team resulted in a successful extension proposal as outlined below.

The following extension of all lines of coverage to December 31, 2017 based on the same terms and conditions and updated hard construction costs of \$2,074,348,000 is proposed:

Coverage Type	Term
Builders Risk Property	Extended to December 31, 2017
Wrap Up Liability	Extended to December 31, 2017
Environmental Impairment Liability	Extended to December 31, 2017
<b>TOTAL COST (Inclusive of Tax)</b>	<b>\$7,799,708</b>

**BUILDERS RISK PROPERTY**

**Additional Premium to Adjust Hard Construction Cost Value**

Hard construction costs originally reported at inception of the project were approximately \$1.6 billion including the value of the TBMs. An additional premium of \$23,651 (inclusive of tax) is included in the total premium for the extension of the Builders Risk property policy in the table above to adjust the final value of the TBMs to December, 1, 2015.

Once the project is complete an adjustment, based on hard construction costs, will be required resulting in an additional premium being assessed against the project.

**WRAP UP LIABILITY**

**Additional Premium to Adjust Hard Construction Cost Value**

Hard construction costs originally reported at inception of the project were \$1.9 billion. The current hard construction costs reported to the insurers is \$2.1 billion. The wrap up liability premiums are charged on the overall exposure, contemplating total risk, for the life of the project. The additional premium to true-up the hard construction value is \$229,124 and is included in the premium of the primary layer of the Wrap Up liability policy noted in the table above. The primary layer of the Wrap Up liability policy remains subject to further adjustment based on actual construction costs.

**SUMMARY**

In summary, the premium to extend the Builders Risk property, Wrap Up liability and Environmental Impairment liability policies for TYSSSE to December 31, 2017 is \$7,799,708 inclusive of tax, with both the Builders Risk property and primary layer only of the Wrap Up liability policy being subject to a further premium adjustment based on final hard construction costs.

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