



TASK ORDER NO. 9

CONSULTANT FIRM Navigant Consulting, Inc		TASK ORDER TITLE Insurance Affordability and Risk Quantification Study	
CONTRACT NUMBER 54A0028	EA 54-912076	FUND TYPE / SPLIT 042T (100% State)	DATE January 12, 2006

I. PROJECT / PROCESS DESCRIPTION

- Using a representative number of actual ongoing Department highway construction contracts, identify all construction risks for which insurance is currently required under Section 7-1.12B, "Insurance," of the Standard Specifications.
- Using risk management science and likely industry practices, quantify the identified construction risks for the selected projects above. Including the method used to quantify the risks above, develop alternative analytical methods for the Department's use to quantify construction risks.
- Investigate affordability of insurance premiums under Section 7-1.12B, "Insurance," of the Standard Specifications with particular reference to small and minority businesses in the state.
- In lieu of the single tier insurance coverage required under Section 7-1.12B, "Insurance," of the Standard Specifications, recommend alternative insurance premium schemes including a tiered approach in which the amount of insurance required is based on a calculated or quantified risk.
- Investigate the feasibility of insurance pools for small contractors with the goal of reduced premiums through bulk purchase power and shared costs.
- Consider the limitations imposed by Sections 2782 and 11580.04 of the Civil and Insurance Codes of the State of California respectively, and with specific reference to the State's High Court decision in Hooker v. Department of Transportation, 27 Cal. 4th 198 (2002), investigate the feasibility and legal ramifications if the Department obtains construction general liability insurance as the "Named Insured." Solicit and provide actual insurance premium quotes for the specific projects selected above, assuming the Department is the "Named Insured."

II. BACKGROUND

It is the goal of the Department to increase participation of small and minority businesses in its construction contracting while maintaining a prudent risk management policy through safety practices and indemnification and insurance requirements in Section 7-1.12, "Indemnification and Insurance," of the Standard Specifications. The California Small Business Council (CSBC) subcommittee for construction, and to some extent, large contractors have complained about the single tier insurance requirement under Section 7-1.12B, "Insurance," of the Standard Specifications. In particular, they complain that the \$5 million excess/umbrella insurance is too high for small projects and prevents many small and minority businesses from participating in the Department's construction contracting. Instead of arbitrarily reducing the amount of insurance required under Section 7-1.12B, "Insurance," of the Standard Specifications, the Department will investigate the extent of the problem of affordability, and determine the feasibility of alternative approaches including a tiered system based on well informed risk management decisions. To do so in a prudent and cost effective manner, the Department needs to be able to identify and quantify the overall risks associated with each construction contract. This task order seeks to determine the extent of the problem, develop alternative methods to quantify construction risks, and find alternative approaches to managing construction risks including various insurance programs.

Also, to improve its risk management options, the Department will investigate the feasibility and cost of insurance if the Department were the "Named Insured" instead of "Additional Named Insured" under Section 7-1.12B, "Insurance," of the Standard Specifications.

III. SCOPE OF SERVICES

The scope of work shall include but not limited to all of the following:

1. Conduct telephone interviews with members of the California Small Business Council, subcommittee on construction, and some large construction companies to establish the extent of problems with insurance affordability under Section 7-1.12B, "Insurance," of the Standard Specifications.
2. Working with the task order manager or his appointed representative, put together a task order team to select representative number of ongoing construction contracts for which risk identification, risk quantification, and insurance premium solicitation if Department were the "Named Insured," will be performed under this task order.
3. Develop alternative analytical methods for identifying and quantifying construction risks for each of the construction contracts selected by the task order team. Each alternative method should have two distinct components as follows: (1) A set of descriptive steps to identify risks, and (2) an analytical process to accurately quantify the identified risks. Include an easy to use quantity calculation sheet that project development engineers may use to quantify identified risks.
4. Using the methods developed in No. 3 above, identify and quantify all construction risk for the selected projects in No. 2 above.
5. Investigate the feasibility and legal ramifications if the Department obtains construction general liability insurance as the "Named Insured" considering Sections 2782 and 11580.04 of the Civil and Insurance Codes respectively, and with specific reference to the State's High Court decision in *Hooker v. Department of Transportation*, 27 Cal. 4th 198 (2002).
6. Solicit insurance premium quotes with the Department as the "Named Insured" for coverage required under Section 7-1.12B, "Insurance," of the Standard Specifications for the projects selected above.
7. Compile all findings and methods developed under this task order into a written report and submit to the task order manager for review and comments.
8. Prepare and make a power point presentation to a group of Department employees and agents on the key findings in this task order during which time you should be prepared to answer questions.

IV. REPORTS AND MEETINGS

Compile your findings and methods for use by the Department into a report and submit to the task order manager. Meet with task order manager as required, to accomplish the desired report.

V. PERIOD OF PERFORMANCE

Work on this Task Order shall begin on January 16, 2006 and end on June 30, 2006.

VI. PROJECT SCHEDULE

Task Order signed	January 13, 2006
Task Order Team meets	January 25, 2006
Preliminary Briefing	March 31, 2006
Draft report to Task Order Manager	April 28, 2006
Draft report returned to Consultant with comments.....	May 19, 2006
Final draft report to Task Order Manager.....	June 2, 2006
Power Point Presentation of key findings by consultant.....	June 13, 2006
Final Report submitted by consultant to Task Order Manager.....	June 30, 2006

VII. COST

The Contractor will be reimbursed for hours worked, in accordance with the cost estimate, and in accordance with the Master Contract. Total amount paid by the State under this Task Order shall not exceed \$250,000.00.

VIII. TASK ORDER MANAGER

The Department's Task Order Manager is Patrick Bockari. His telephone number is (916) 654-5196. His email address is patrick_bockari@dot.ca.gov.

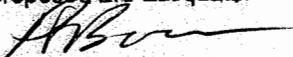
IX. SIGNATURES

I certify that this Task Order complies with the provisions of Contract Number 54A0028, is necessary for the satisfactory completion of the product(s) contracted for, and that sufficient funds are available to pay for this work.



Kevin Chan, Contract Manager

I certify that the description of work in this task order is comprehensive and the estimate and staffing proposed are adequate.



Patrick Bockari, Task Order Manager

I certify that the work described in this task order is necessary to complete the project's contract administration or to assist the Division of Construction in achieving its objectives.

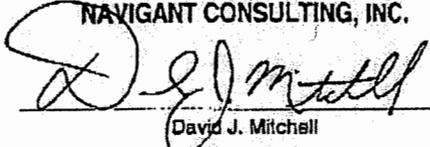


Tony Tavares, Acting Toll Bridge Program Manager
Division of Construction

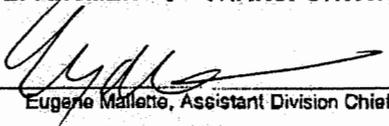


Eugene Mallette, Assistant Division Chief
Division of Construction

IN WITNESS WHEREOF, this Task Order has been executed under the provisions of Contract No. 54A0017 between the State of California, Department of Transportation, and Navigant Consulting. By signature below, the parties hereto agree that all terms and conditions of this Task Order and Contract Number 54A0017 shall be in full force and effect.

NAVIGANT CONSULTING, INC.


David J. Mitchell
Director
Date: 1/13/06

State of California
DEPARTMENT OF TRANSPORTATION


Eugene Mallette, Assistant Division Chief
Division of Construction
Date: 1/19/06



TASK ORDER NO. 9, SUPPLEMENT

CONSULTANT FIRM Navigant Consulting, Inc		TASK ORDER TITLE Contract Bonds Study	
CONTRACT NUMBER 54A0028	EA 54-912076	FUND TYPE / SPLIT 042T (100% State)	DATE March 3, 2006

I. PROJECT / PROCESS DESCRIPTION

- This is Supplement No. 1 to Task Order No. 9, and all work described herein shall be in addition to the scope of work in Task Order No. 9.
- Using the same representative number of Department highway construction contracts selected to be used in the Insurance Affordability and Risk Quantification Studies under Task Order No. 9, investigate and report the nature and extent of impediments to small and disadvantaged businesses in the Department's construction contracting due to proposal guaranty and contract bond requirements in Sections 2-1.07, "Proposal Guaranty," and 3-1.02, "Contract Bonds," of the Standard Specifications respectively.
- Sight at least three successful bond assistance programs by public agencies within the continental United States. At least one of the public agencies must be a California public agency.
- Evaluate strategies and present your recommendations for removing impediments to small and disadvantaged businesses due to the bonding requirements in Sections 2-1.07, "Proposal Guaranty," and 3-1.02, "Contract Bonds," of the Standard Specifications.

II. BACKGROUND

Sections 2-1.07, "Proposal Guaranty," and 3-1.02, "Contract Bonds," of the Standard Specifications require prospective and successful bidders respectively to post financial guaranties in the form of bonds as specified therein as part of the Department's construction contracting. It is widely believed that these bonding requirements are impediments to small and disadvantaged contractors in participating in the Department's contracting. It is a Department goal to remove impediments or barriers to small and disadvantaged businesses in its construction contracting, and thereby allow a larger number of competitive bids while facilitating the growth and expansion of businesses in the state. This supplemental task order seeks to determine the extent of the problem posed by proposal guaranty and contract bonds in the Department's construction contracting, and to develop alternative bonding strategies to remove those impediments.

III. SCOPE OF SERVICES, SUPPLEMENT NO. 1, TASK ORDER NO. 9

The scope of work for this supplement shall include, but not be limited to, all of the following:

1. Expand the telephone interviews for insurance studies to be conducted with members of the California Small Business Council, Small Business Subcommittee on Construction, and some large construction companies to include bonding impediments posed by requirements under Sections 2-1.07, "Proposal Guaranty," and 3-1.02, "Contract Bonds," of the Standard Specifications.
2. Obtain surety insight into the bonding impediments established from discussions with contractors, and from the sureties own perspectives.
3. Research existing or past bonding assistance programs by public agencies within the continental United States, including at least one California public agency in your studies. Present report of your findings with your analysis for their successes and failures if any. From your research and analyses, recommend bonding assistance programs to be implemented by the Department with the goal to removing impediments to small and disadvantaged businesses in the Department's contracting.
4. Expand the scope of the insurance studies' reports to include the bonding issues outlined in this supplemental scope of work.

IV. REPORTS AND MEETINGS

Compile your findings into a report and submit to the task order manager. Meet with task order manager as required, to accomplish the desired report.

V. PERIOD OF PERFORMANCE

Work on this Task Order Supplement shall begin, progress, and conclude concurrently with the insurance affordability and risk quantification studies under Task Order No. 9.

VI. PROJECT SCHEDULE

Supplemental Task Order signed.....	March 3, 2006
Preliminary Briefing	April 12, 2006
Draft report to Task Order Manager	May 3, 2006
Draft report returned to Consultant with comments	May 15, 2006
Final draft report to Task Order Manager.....	June 2, 2006
Power Point Presentation of key findings by consultant.....	June 13, 2006
Final Report submitted by consultant to Task Order Manager.....	June 30, 2006

VII. COST

The Contractor will be reimbursed for hours worked, in accordance with the cost estimate, and in accordance with the Master Contract. Total amount paid by the State under this Task Order Supplement shall not exceed \$25,000.00, and when combined with the original task order no. 9, the total payments shall not exceed \$275,000.00.

VIII. TASK ORDER MANAGER

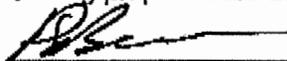
The Department's Task Order Manager for the original and this supplement is Patrick Bockari. His telephone number is (916) 654-5196. His email address is: patrick_bockari@dot.ca.gov.

IX. SIGNATURES

I certify that this Task Order complies with the provisions of Contract Number 54A0028, is necessary for the satisfactory completion of the product(s) contracted for, and that sufficient funds are available to pay for this work.

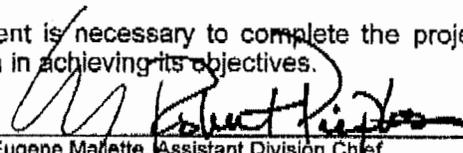

Elizabeth A. Doher, Contract Manager

I certify that the description of work in this task order supplement is comprehensive and the estimate and staffing proposed are adequate.


Patrick Bockari, Task Order Manager

I certify that the work described in this task order supplement is necessary to complete the project's contract administration or to assist the Division of Construction in achieving its objectives.


Victor Salazar, Chief, Office of Risk Management
Division of Construction

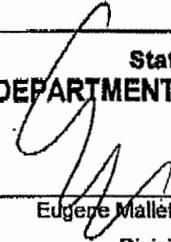

Eugene Mafette, Assistant Division Chief
Division of Construction

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IN WITNESS WHEREOF, this Task Order has been executed under the provisions of Contract No. 54A0017 between the State of California, Department of Transportation, and Navigant Consulting. By signature below, the parties hereto agree that all terms and conditions of this Task Order and Contract Number 54A0028 shall be in full force and effect.

NAVIGANT CONSULTING, INC.


David J. Mitchell
Director
Date: 3/6/06

**State of California
DEPARTMENT OF TRANSPORTATION**


Eugene Mallette, Assistant Division Chief
Division of Construction
Date: 1/10/06