

**AMEND BOARD REPORT# 02-0327-PR17**  
**AUTHORIZE PLACEMENT OF INSURANCE FOR THE OWNERS CONTROLLED INSURANCE PROGRAM WITH AON RISK SERVICES OF ILLINOIS AND AUTHORIZE THE ESTABLISHMENT OF AN ESCROW ACCOUNT WITH KEMPER INSURANCE COMPANY**

**THE CHIEF EXECUTIVE OFFICER REPORTS THE FOLLOWING DECISION:**

Authorize AON Risk Service of Illinois to place the following insurance policies on behalf of the Board, for the Owners Controlled Insurance Program (OCIP) in an aggregate amount not to exceed \$7,000,000 in premiums and claims for a 36-month period. Authorize the establishment of escrow account to pay OCIP claims through Kemper Insurance Company not to exceed the Kemper deductible, commencing April 1, 2002. The policies of coverage constitute the contract between the Board and its carriers and no further written documentation is required. Information pertinent to this matter is stated below:

This amendment is necessary to eliminate the surety bond requirement and add the authorization for a Reserve Escrow Account, as required by Kemper.

**Specification No.:** 02-250042

**INSURANCE CARRIERS:**

1. Kemper Employers Insurance Group  
 One Kemper Drive  
 Long Grove IL 60049-0001  
 847-320-2000  
 For: Primary WC/EL & General Liability  
 And Claims Administrator  
 Vendor:

2. Royal Insurance Co.  
 12700 Oxnard Street, Ste 1500  
 Woodland Hills, CA 91267  
 818-888-2322  
 For: First layer excess liability

3. Gulf Insurance  
 125 Broad Street, 8<sup>th</sup> Floor  
 New York NY10004  
 For: Second layer excess liability

4. Athena Assurance Company St. Paul  
 385 Washington Street  
 St. Paul MN 55102  
 For: Third layer excess liability

5. AIG/Illinois National Insurance Company  
 500 West Madison Street  
 Chicago IL 60606-2511  
 312/770-7000  
 For: Environmental/Abatement Liability

6. Safeco Insurance Company  
 Safeco Plaza  
 Seattle WA 98185  
 206-545-5000  
 For: Surety bond as collateral

**BROKER:**

AON Risk Services of Illinois  
 200 East Randolph – 11<sup>th</sup> Floor  
 Chicago, Illinois 60601  
 Contact Person: Matthew Perno  
 Phone: (312) 381-4495  
 Vendor#: 23844

**USER:**

Bureau of Risk and Benefits Management  
 125 South Clark Street -14<sup>th</sup> Floor  
 Georgette Hampton, Director  
 (773) 553-2818

**TERM:** The terms of each policy shall commence on April 1, 2002 and shall end April 1, 2005. The AIG Environmental policy shall extend to April 1, 2003 from its prior effective dates April 1, 1999 to April 1, 2002.

**DESCRIPTION OF POLICIES:**

**General Liability and Workers' Compensation**

Provides primary coverage for the Board's enrolled contractors and subcontractors for both general liability and workers' compensation/employers' liability on an occurrence basis. Insures the Board and the Public Building Commission of the City of Chicago and provides additional insured status to all construction managers and other professional services firms as necessary.

Coverage	Insurance Limits	Per Loss Deductible
WC/Employers' Liability	Statutory/\$1,000,000	\$500,000
General Liability	\$2,000,000/\$4,000,000	\$500,000

A cash provision of \$600,000 is included in the event that a single occurrence results in both a WC/EL claim and a general liability claim.

Kemper will maintain the claims handling via an escrow account established by the Board. Kemper will provide all claim administration services and utilize claim management services such as medical case management, recovery of PPO discounts fraud investigators, and legal services as appropriate. All OCIP claim payments will be issued by Kemper Insurance Company via escrow accounts the Board establishes with Kemper Insurance Company. The Department of Risk and Benefits Management will encumber claim payment amounts annually and will deposit escrow funds upon receipt of invoice for prior period payments and report of projected future claim payments.

**Abatement Liability & Contractors Liability**

Blanket abatement liability coverage for the Board and all abatement contractors for bodily injury and property damage claims due to environmental exposures. Blanket contractor environmental liability coverage for all contractors on the job site for unanticipated pollution exposures.

**Excess Liability Insurance**

Three insurers provide \$50,000,000 of excess insurance in three layers which apply when either a specific loss or aggregate losses exceed the primary insurance limits. The excess policy premiums are flat rates and are not subject to payroll adjustment and are applicable for the project term.

**Surety**

~~Collateral to be used to secure future claim and premium funding assurances required by Kemper. The surety bond in lieu of a Letter of Credit or cash deposit. Bonds are required by Kemper and TIG until TIG's claims program runs off existing claims from incidents prior to April 1, 2002.~~

**Reserve Escrow Account**

Establishes reserves at 75% of the Board's maximum anticipated loss in the program Will be established over a three-year period in twelve quarterly installments, by accessing future funds set aside for OCIP from all future bond issues.

**DELIVERABLES:** The listed insurance companies will issue policies of insurance to the Board. AON Risk Services of Illinois will assist to make all appropriate and necessary changes to the written policies as per the request of the Director of the Bureau of Risk & Benefits Management

**OUTCOMES:** Provide a comprehensive property/casualty insurance program for the OCIP.

**AUTHORIZATION:** Authorize the Director of Risk and Benefits Management to execute all ancillary documents required to administer or effectuate the policies and necessary transfers to the Escrow Account and Reserve Escrow Account. Authorize the Director of Risk and Benefits Management to substitute other reputable surety bonding carriers as necessary.

**PREMIUM:** Premiums will be paid to AON, who will place the insurance and pay the insurance companies directly. Premiums may be subject to change in the event of a change in rates or construction volumes. Escrow funding for losses occurring after April 1, 2002 will be issued directly to Kemper.

Coverage	Premium
<b>General Liability &amp; Workers' Compensation</b>	<b>\$3,133,304</b> subject to upward adjustment based on audited workers' compensation payroll.
<b>Environmental Liability</b>	\$0 Extension to 4/1/03 at no additional cost to the Board.
<b>Excess Liability</b>	<b>\$1,100,000</b>
1 <sup>st</sup> Layer	Royal \$550,000 \$10 million xs primary
2 <sup>nd</sup> Layer	Gulf \$275,000 \$15 million xs \$10 million
3 <sup>rd</sup> Layer	St. Paul \$275,000 \$25 million xs \$25 million
<b>Surety</b>	<del>Approximately \$135,000 for bonds required over three years.</del>
<b>Reserve Escrow Account</b>	<u>75% of maximum anticipated loss under the OCIP Program over three year term of policy. Future funding via OCIP funds from 1% of all future bond issues.</u>
<b>Claims Escrow</b>	<b>\$2,500,000</b> anticipated over life of program

**AFFIRMATIVE ACTION:** Pursuant to Section 3.7 of the W/BE Plan, since the vendor are merely a conduit of the funds and receives no payment. This transaction is precluded from M/WBE review. Pursuant to Section 3.7 of the Revised Remedial Plan for Minority and Women Business Enterprise Contract Participation (M/WBE Plan) this contract is exempt from review because this vendor is merely a conduit of the funds and receives no payment.

**LSC REVIEW:** Local School Council approval is not applicable to this report.

**FINANCIAL:** Charge to Capital Improvement Program : \$4,500,000 for 36 months for Insurance Premium and,  
\$1,700,000 for Fiscal Year: 2002/ FY 2003, and \$2,800,000 to future Capital Funding  
Budget Classification: 0230-Various Capital Funds-000-9316-5490  
Close P.O.# 124363 and re-allocate \$2,438,605.82 to fund Escrow Account  
Allocate 1% all future bond issues be reserved for OCIP claims and expenses.

**GENERAL CONDITIONS:**

Inspector General – Each party to the agreement shall acknowledge that, in accordance with 105 ILCS 5/34-13.1, the Inspector General of the Chicago Board of Education has the authority to conduct certain investigations and that the Inspector General shall have access to all information and personnel necessary to conduct those investigations.


Conflicts – The agreement shall not be legally binding on the Board if entered into in violation of the provisions of 105 ILCS 5/34-21.3 which restricts the employment of, or the letting of contracts to, former Board members during the one year period following expiration or other termination of their terms of office.

Indebtedness – The Board's Indebtedness Policy adopted July 26, 1995 (95-0726-EX3), as amended from time to time, shall be incorporated into and made a part of the agreement.

Ethics – The Board's Ethics Code adopted September 27, 1995 (95-0927-RU3), as amended from time to time, shall be incorporated into and made a part of the agreement.

Contingent Liability – The agreement shall contain the clause that any expenditure beyond the current fiscal year is deemed a contingent liability, subject to appropriation in the subsequent fiscal year budget(s).

**Approved for Consideration:**

  
Anita Rocha  
Acting Chief Purchasing Officer

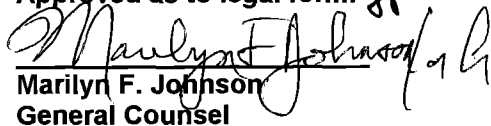
**Approved:**

  
Arne Duncan  
Chief Executive Officer *by PAD*

**Within Appropriation:**

  
Kenneth C. Gotsch  
Chief Fiscal Officer

**Approved as to legal form:** *HW*

  
Marilyn F. Johnson  
General Counsel