

DATE ISSUED: March 2, 2005

REPORT NO: 05-058

ATTENTION: Honorable Mayor and City Council

SUBJECT: City Manager's Equal Opportunity Contracting (EOC)
Minor Construction Program and Risk Management
S.P.A.R.T.A. (Service Providers and Artisan Tradesman Activities)
Insurance Program

REFERENCE: CMR 02-046

SUMMARY

THIS IS AN INFORMATION ITEM ONLY. NO ACTION IS REQUIRED ON THE PART OF THE CITY COUNCIL.

BACKGROUND

As delineated in City Managers Report 02-046, the Minor Construction Program (MCP) was developed in response to perceived inequities in the allocation of contracting dollars. The Minor Construction Program (MCP) is structured to assist small and emerging contractors in gaining expertise and growing their capacity in a controlled environment. Specific benefits of the program are a leveled playing field, lower contract amounts to allow development of bond and credit levels, and an accumulation of business and technical experience. The goals of the program are to: increase opportunities for small and emerging contractors, bring new, competitive bidders to the City's pool of contractors, ensure that the contracting dollars reach the highest possible diverse community, and assist small and emerging contractors in "growing" their business.

Since its inception, Minor Construction has awarded 44%, or \$3.2 million, of its contracts to disadvantaged business entities and disabled veteran contractors and increased competition on City projects by bringing 62 new companies to the City bidding pool. These contractors have not only bid on Minor Construction projects, but on the larger Capital Improvement Projects, as well. Additionally, nine firms have successfully "graduated" from Minor Construction's

emerging list to its small list; increasing their firms' income over the income cap of the emerging list.

Six additional firms have "graduated" out of the program entirely; exceeding the emerging and the higher small list income caps. The number of graduates represents eighteen percent (18%) of the total pool of bidding contractors in Minor Construction.

The program continually seeks refinement in processes and requirements in order to facilitate contracting success by small and emerging contractors. One of the primary barriers to bidding with the City of San Diego, as identified by the Public Works Advisory Committee's Subcontracting Subcommittee, is the prohibitive cost of meeting the City's insurance requirements. Insurance premiums have risen to almost double in some cases for private businesses. Public entities and private businesses alike are seeking means to lower liability and auto insurance premiums.

In FY 2003, the Risk Management Department and the Minor Construction Program worked together to reduce the City of San Diego's insurance requirements to enable small and emerging contractors to bid. Through an innovative approach to risk management, including general streamlining of some of the more prohibitive insurance requirements and project by project determination of coverage on others, a new standard for insurance coverage was arrived at for small and emerging contractors. However, as a self-insured agency, the City of San Diego's insurance requirements, while not measurably higher than other similar public entities, may still be more stringent than the private sector. Contractors continued to be unable to provide coverage. Rejected bids and long delays in providing insurance continued. Additionally, the cost of liability and auto insurance premiums continued to rise.

In the City, these problems are not limited to the Minor Construction Program. Risk Management staff routinely field questions from many City departments regarding the necessity of specific insurance requirements and/or coverage limits for artists, artisans, trades people, and small service providers who are unable to obtain the recommended insurance coverages and/or limits at costs which are not prohibitive, particularly given the particular job. The City tasked staff with identifying an alternative approach which would enable the smaller contractors, vendors and service providers to meet their contract and bid requirements while at the same time ensuring that adequate liability protection is provided. The S.P.A.R.T.A. program appears to meet those needs.

This document addresses the need for an affordable and comprehensive insurance plan for small and emerging contractors in the Minor Construction Program (MCP) and with the Commission for Arts and Culture to increase their opportunities to successfully bid on public works projects.

DISCUSSION

The S.P.A.R.T.A. (Service Providers and Artisan Tradesmen Activities) Insurance Program is designed to provide affordable Commercial General Liability, Excess General Liability, Professional Liability and Non-owned Automobile Liability coverage to tradesmen, artisans, contractors and tenants who would not otherwise be able to provide the insurance limits needed

to successfully bid and compete for public entity business opportunities. The cost to the public agency is a \$5,000 annual deposit, plus an annual Surplus Lines Association (SLA) Tax and Stamping Fee of \$161.25, for a total annual cost of \$5,161.25.

As administered by Municipality Insurance Services, Inc., S.P.A.R.T.A. is a program that allows public entities to access small and emerging contractors, vendors and service providers by enabling them to purchase insurance sufficient to satisfy City requirements at reduced premium costs. Ultimately this should result in cost savings to the City as lower insurance costs are calculated into the bid submissions. The program is able to do this by writing a high volume of business, limited to public entity members.

For a small annual fee, public entities can join S.P.A.R.T.A. A Master policy, issued in the name of the public entity, is then accessible to contractors, vendors and service providers entering into contracts with the entity. It should be pointed out that the City does not insist that its contractors use S.P.A.R.T.A., nor will the City recommend the program. It will merely be offered as an option at the inception of the bid process so that small and emerging contractors, vendors and/or service providers who do not already possess the required insurance coverages, or who are unable to afford the required coverages can purchase project specific insurance at prices that are less than half the normal cost of this insurance. Further the coverage provided has already been pre-approved by the City. It is conceivable that a contracting firm would see a reduction of insurance premiums of up to 80% for project specific liability and/or automobile coverage.

In addition to the reduced premiums, contractors will receive expedited processing of their requests for quotes, as applications are not required. Loss runs are not typically requested and prior insurance coverage is not required. Contractors also have the option to purchase job or project-specific coverage, which will also result in lowered insurance costs. The contractor deals directly with Municipality Insurance Services, Inc, which in turn forwards all required insurance documentation to the City. There are other benefits to the City as well. S.P.A.R.T.A. frees up staff time by eliminating the costly and often time-consuming task of acquiring, reviewing and storing insurance certificates which evidence the required coverages and limits. Because the coverage is pre-approved and the insurer, Essex, remains the same, coverage will consistently meet the stated requirements. The program administrator will provide designated representatives in Risk Management and Minor Construction with monthly reports which list the number of participants, size of contract, loss information, if any, and specific department activity. Collection of premium, assessment of exposures and other administrative tasks are all the responsibility of Municipality Insurance Services, Inc. The program administrator will also be responsible for notifying the participating certificate holder (contractor/vendor/service provider) sixty days prior to expiration of coverage as well as notifying the City should the coverage be non-renewed.

S.P.A.R.T.A. is currently being used by the following California public entities: the City and County of Los Angeles, the City and County of San Francisco, the County of San Bernardino, the County of San Diego, the County of Santa Barbara, the San Diego County Water Authority, the Los Angeles World Airports, the San Diego Port District and Airport Authority, to name a few.

As part of our research, Risk Management staff contacted risk management counterparts at the County of San Diego and the Port District and both highly recommend the program.

While S.P.A.R.T.A. does not currently offer all lines of coverage and its liability policy contains some contractual limitations which would not be acceptable to the City on larger projects, a trial or pilot program is definitely warranted. For this reason, initial access to the SPARTA program be limited to the Minor Contracts Program and the Arts program. The working group, which consists of staff from Risk Management, Minor Contracts and City Attorneys Office plans to meet in six months to assess the program and determine whether to continue and/or whether to open up the program to more trades, contractors, etc.

In closing, based on the above information provided, the S.P.A.R.T.A. program should prove very valuable and beneficial to the Minor Construction Program's small and emerging business contractors.

Respectfully submitted,

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Attachments: [1. S.P.A.R.T.A. Insurance Program Handbook](#)
[2. City Manager's Report 02-169](#)