Summary of Final Report, BD549-18
September 2006

FINDINGS WAYS TO REDUCE INSURANCE AND BONDING COSTS FOR MAJOR TRANSIT PROJECTS

BACKGROUND

Florida is positioned to embark on a number of major transit construction projects over the next five years. However, there has been evidence to suggest that insurance and bonding costs for transit projects are rising. As transit's primary funding source for capital programs, the Federal Transit Administration (FTA) has expressed concern about escalating construction costs, specifically in the areas of insurance and bonding. Thus, research was needed to determine whether the evidence is correct and, if it is, to identify mechanisms for minimizing these increasing costs.

OBJECTIVES

The objectives of this study were to verify the trend of rising costs in insurance and bonding for major transit construction projects, determine their causes, and identify ways that transit agencies could minimize these costs in their major capital programs.

FINDINGS AND CONCLUSIONS

Although there have been increases in the cost of risk insurances associated with major capital construction projects, the primary drivers to the escalation of overall increases in costs associated with major capital construction projects are related to labor, concrete, steel, fuel, real estate acquisition, bid delays, and other factors not associated with risk insurance.

Risk insurance costs were impacted by terrorist acts on September 11; nonetheless, the Terrorism Risk Insurance Acts (TRIA) of 2002 and 2005 helped to stabilize the risk insurance industry. Based on interviews with industry experts, researchers found that the program resulted in increased insurance costs for small businesses. In the event the forecast is favored for upholding the current legislation, which is mandated to sunset in December 2007, options available to transit agencies for the continuation of affordable terrorism insurance coverage should be identified and the findings should be communicated to agencies well before the projected sunset date.

The impact of the 2004 and 2005 hurricane seasons on the insurance industry extended beyond the Gulf Coast area. The high payouts from reinsurance companies and the associated reduction in industry capacity to place new coverage generated significant increases in the cost of premiums and diminished the ability of the industry to write new policies in several areas of the country. Options for reducing costs through the evaluation and assessment of benefits and challenges associated with pooling agencies should be explored. Criteria for participation in transit insurance pools to assist in the creation and sustainability of transit insurance pools to reduce premiums should be developed.

Additional findings support the need to do the following:

- identify better mechanisms for releasing bids that are based on present-day projections
- explore the level of difficulty transit agencies encounter in meeting the Federal Transit Administration (FTA) requirement to have 100 percent of bonding in place prior to project implementation
- evaluate insurance and bonding as independent costs drivers
- take advantage of the real-time experiences associated with major capital projects currently in production
- explore innovative approaches to cost reduction with transportation research programs

BENEFITS

The major contribution of this research lies in the identification of several key cost drivers as well as potential means of reducing insurance cost variance.

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