# HOUSE BILL REPORT
# SHB 2132

**As Passed House:**
March 13, 2003

**Title:** An act relating to public building or construction contracts.

**Brief Description:** Securing public building or construction contracts.

**Sponsors:** By House Committee on Financial Institutions & Insurance (originally sponsored by Representatives Kenney, Schual-Berke, Santos and McDermott).

**Brief History:**
**Committee Activity:**
Financial Institutions & Insurance: 3/4/03, 3/5/03 [DPS].
**Floor Activity:**
Passed House: 3/13/03, 95-1.


**Brief Summary of Substitute Bill**

- Authorizes public entities to utilize wrap-up insurance policies for public construction projects that: (1) are situated in counties with a population of over one million persons; (2) involve project costs of over $100 million; and (3) are administered for public hospitals.


## HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Schual-Berke, Chair; Simpson, Vice Chair; Benson, Ranking Minority Member; Newhouse, Assistant Ranking Minority Member; Cairnes, Carrell, Cooper, Hatfield, Hunter, Roach and Santos.

**Staff:** Thamas Osborn (786-7129).

**Background:**

Most public works construction in Washington is performed by private firms. State and local governments contract with private architectural and construction companies for the design and construction of facilities using specific procedures designated in statute. Typically, contractors, subcontractors, consultants, architects, the owner, and others involved in major public construction projects each obtain their own insurance or risk financing to cover their role or risk in the project.

A type of risk pooling known as a "wrap-up" insurance policy is routinely used on large private construction projects, and is used in other states on their public construction projects. A wrap-up insurance policy generally involves one large, comprehensive policy that covers the owner and all the companies involved in a construction project. This can reduce costs and simplify project management.

Absent explicit statutory authorization, current law generally prohibits wrap-up policies for public construction projects. There are presently three types of public construction projects that have statutory authorization for the use of wrap-up insurance policies.

---

**Summary of Substitute Bill:**

Public construction projects are authorized to use wrap-up insurance policies provided such projects: (1) are situated in counties with a population of over one million persons; (2) involve project costs of over $100 million; and (3) are administered for public hospitals.

"Project" is defined as a capital construction project in which any public agency, public authority or public corporation has one construction contract with a contractor that is in excess of $100 million. Combining two or more construction contracts in order to exceed the $100 million threshold for certain projects is prohibited.

Section 1 of the bill expires as of December 31, 2006.

Section 2 of the bill takes effect as of December 31, 2006.

---

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed, except Section 2, which takes effect December 31, 2006.

**Testimony For:** Allowing wrap-up insurance policies on certain public construction projects is desirable because it is efficient and can save the taxpayers a lot of money. Such policies make it possible to avoid the expense of overlapping insurance coverage. This bill will reduce the cost of renovations at Harborview Medical Center by between $400,000 and $700,000, and therefore benefits the public.

**Testimony Against:** Independent insurance agents are opposed to the bill. Whether wrap-up policies actually save money on public projects is questionable because worker's compensation is not included. Worker's compensation should be included in such policies and this is in fact done in many states. Wrap-up policies can actually make insurance more expensive for subcontractors since it sometimes forces them to duplicate the insurance they already have. It is unfair to force subcontractors to participate in an insurance arrangement that they might not want. Furthermore, wrap-ups put contractors with low risk factors in same pool with those that have high risk factors, which has the effect of penalizing those who should have lower insurance costs.

**Testified:** (In support) Suzanne Dale Estey, King County; and Jackie Der, Harborview Hospital.

(Opposed) Bill Stauffacher, Independent Insurance Agents and Brokers of Washington.