

THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY

COMMITTEE ON FINANCE

MINUTES

Thursday, February 22, 2007

Authorization of Brokerage Services for Port Authority Construction Activities at the World Trade Center (WTC) Site and Purchase of Owners' Controlled Insurance Program for WTC Redevelopment – Freedom Tower and Memorial Complex Construction 2

THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY**MINUTES OF COMMITTEE ON FINANCE****225 Park Avenue South****New York, NY****Thursday, February 22, 2007****PRESENT:**

Hon. Bruce A. Blakeman
Hon. Anthony R. Coscia
Hon. Anthony J. Sartor, *pro tem*
Hon. David S. Steiner
Committee Members

Anthony E. Shorris, Executive Director
Darrell B. Buchbinder, General Counsel
Karen E. Eastman, Secretary

Veronica Biddle, General Manager, Risk Management, Treasury
A. Paul Blanco, Chief Financial Officer
Michael G. Fabiano, Deputy Chief Financial Officer/Comptroller
Ziomara Y. Foster, Senior Administrator, Office of the Secretary
Louis J. LaCapra, Chief Administrative Officer
Michael G. Massiah, Director, Management and Budget
John J. McCarthy, Director, Public Affairs
James E. McCoy, Manager, Board Management Support, Office of the Secretary
Anne Marie C. Mulligan, Treasurer
Andrea Roitman, Director, Procurement

Guests:

James Carey, Authorities Unit, Office of the Governor of New Jersey
Mark Charron, Deloitte Consulting, LLP
Ed Koral, Deloitte Consulting, LLP

The Committee meeting was called to order by Commissioner Blakeman in public session, which began at 11:08 a.m. and ended at 11:15 a.m. Commissioner Coscia was not present for the vote. The Committee also met in executive session following the public session.

AUTHORIZATION OF BROKERAGE SERVICES FOR PORT AUTHORITY CONSTRUCTION ACTIVITIES AT THE WORLD TRADE CENTER (WTC) SITE AND PURCHASE OF OWNERS' CONTROLLED INSURANCE PROGRAM FOR WTC REDEVELOPMENT -- FREEDOM TOWER AND MEMORIAL COMPLEX CONSTRUCTION

It was recommended that the Committee authorize the Executive Director, the Chief Financial Officer, the Director of Procurement, or the Treasurer to: (1) enter into an agreement with Aon Risk Services, Inc. (Aon) for Aon to provide brokerage services for all Port Authority construction activities at the World Trade Center (WTC) site; and (2) purchase an Owners' Controlled Insurance Program (OCIP) for the five-year construction term for the Freedom Tower and Memorial Complex at the WTC site, through the broker, Aon, with the appropriate available limits, retentions, and other terms, effective on or about April 1, 2007, at an estimated cost of \$151 million. The estimated cost would provide for the purchase of the insurance, including terrorism coverage, for the full five-year term of construction, as well as administration of the program, dedicated safety and loss control personnel, claims management, and defense. The brokerage fee for the placement and administration of the full five-year term of the OCIP is not to exceed \$6.2 million. The Freedom Tower project is being managed by 1 World Trade Center LLC, a wholly owned entity of the Port Authority.

This insurance would become part of the site-wide OCIP coverage, and certain elements of the coverage would offer full-site protection against loss for the five-year term of construction of the Freedom Tower and Memorial Complex projects, commencing April 1, 2007. Aspects of the coverage would be endorsed to the existing WTC Transportation Hub and provide uniform and greater overall site capacity. Other portions would provide separate and dedicated coverage to the individual projects, but would be part of the complete site-wide insurance OCIP, to maintain stability of coverage and terms. By placing the coverage in this manner, the Port Authority would have access to the greatest capacity available for the construction at the lowest overall cost offered by the market. Numerous carriers have indicated that their participation is dependent upon the Port Authority maintaining control over the construction, safety, security, insurance and claim administration at the WTC site.

Consistent with the WTC Transportation Hub portion of the OCIP, the brokerage services would be provided by Aon. In addition to marketing the insurance placement, Aon would provide essential services for the full term of construction, including site-wide safety and loss control, uniform administration, dedicated claims handling and defense. Aon would earn a total five-year broker fee for placement and administration of the OCIP not to exceed \$6.2 million. Previously, Aon was selected as the broker on the master (non-WTC) OCIP program through a competitive Request for Proposals process, which was authorized by the Committee on Finance at its April 26, 2006 meeting.

The OCIP would provide appropriate financial protection to the Port Authority and the enrolled contractors and subcontractors working on the Freedom Tower and Memorial Complex construction against potential losses arising out of general liability (protection against third-party bodily injury and property damage claims or suits), Workers' Compensation (statutorily required protection for workers who sustain bodily injury during the course and scope of the five-year construction term), Builders' Risk with Terrorism (coverage for property under construction and acts of terrorism committed by both foreign and domestic terrorists), and Environmental

Liability (protection for accidental releases of pollutants on site and pre-existing pollutants discovered during construction). As the Port Authority initiates the remaining construction projects it is managing at the WTC site, Aon would procure additional insurance coverage as necessary for those projects.

A publicly advertised Request for Proposals (RFP) process was conducted by Deloitte Consulting LLP (Deloitte), the Port Authority's insurance consultant, with assistance from Port Authority staff, to solicit proposals for brokerage services in connection with the placement of insurance coverage for Port Authority construction activities at the WTC site. The dual purpose of the RFP was to select an insurance broker and to determine the most comprehensive, cost-effective, and viable construction insurance program structure available for the Port Authority's WTC redevelopment projects. Proposals were received and were reviewed by Deloitte on the basis of qualifications and experience of proposed staff, work approach, and qualifications and experience of the firm. After reviewing the proposals received and analyzing information obtained concerning the present insurance market, the Committee determined that it was in the best interest of the Port Authority to reject all proposals, and to retain the services of Aon, which already is providing brokerage services in connection with the Port Authority's Master Contractor Insurance Program (as authorized by the Committee at its meeting of April 26, 2006).

At its February 23, 2006 meeting, the Committee authorized staff to purchase the OCIP coverage for the WTC Transportation Hub, with appropriate available limits, retentions, and other terms, including coverage for terrorist acts, for a five-year term, effective December 31, 2005 for the Environmental Liability, effective January 31, 2006 for the Workers' Compensation and General Liability, and effective February 23, 2006 for the Builders' Risk coverage, including Terrorism coverage, for a total project premium of \$105,356,593.

The Committee has power to act in this matter under Article XI, Section B of the By-Laws.

Pursuant to the foregoing report, the following resolution was adopted by the Committee in executive session with Commissioners Blakeman, Sartor and Steiner voting in favor; none against:

RESOLVED, that the Executive Director, the Chief Financial Officer, the Director of Procurement, or the Treasurer be and each hereby is authorized, for and on behalf of the Port Authority, to purchase an Owners' Controlled Insurance Program (OCIP) for the five-year construction term for the Freedom Tower and Memorial Complex at the World Trade Center (WTC) site, with the appropriate available limits, retentions, and other terms, effective on or about April 1, 2007, at an estimated cost of \$151 million, including the cost of the purchase of the insurance, including terrorism coverage, for the full five-year term of construction, as well as administration of the program, dedicated safety and loss control personnel, claims management, and defense; and it is further

RESOLVED, that the Executive Director, the Chief Financial Officer, the Director of Procurement, or the Treasurer be and each hereby is authorized, for and on behalf of the Port Authority, to enter into an agreement with Aon Risk Services, Inc. (Aon) for Aon to provide brokerage services in connection with the placement of: (1) the foregoing OCIP, with the brokerage fee for the full five-year term not to

exceed \$6.2 million for placement and administration of the OCIP; and (2) insurance coverage for all remaining Port Authority construction activities at the WTC site; and it is further

RESOLVED, that all documents required to effectuate the foregoing shall be subject to review by General Counsel or his authorized representative.

Whereupon, the meeting was adjourned.

Secretary