

THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY

COMMITTEE ON FINANCE

MINUTES

Thursday, July 27, 2006

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MINUTES OF COMMITTEE ON FINANCE

225 Park Avenue South

New York, NY

Thursday, July 27, 2006

PRESENT:

Hon. Henry R. Silverman, Chair

Hon. Anthony R. Coscia

Hon. David S. Steiner

Committee Members

Darrell B. Buchbinder, General Counsel

Karen E. Eastman, Secretary

Gwendolyn Archie, Senior Administrator, Office of the Secretary

Veronica Biddle, General Manager, Risk Management, Treasury

A. Paul Blanco, Chief Financial Officer

William R. DeCota, Director, Aviation

Francis A. DiMola, Director, Real Estate

Michael G. Fabiano, Deputy Chief Financial Officer/Comptroller

James P. Fox, Deputy Executive Director

Michael B. Francois, Chief, Real Estate/Regional and Economic Development

Iran H. Engel, Assistant Treasurer

Aaron Graham, Management Associate, Human Resources

Kevin J. Kirchman, Deputy Director, Public Affairs

Shawn K. Laurenti, Director, Government and Community Relations

Robert F. Lurie, Chief, Strategic Planning

Michael G. Massiah, Director, Management and Budget

James E. McCoy, Manager, Board Management Support, Office of the Secretary

Anne Marie C. Mulligan, Treasurer

Michael S. Percival, Debt Manager, Treasury

Andrea Roitman, Director, Procurement

Edmond F. Schorno, Chief of Staff

Douglas L. Smith, Deputy Director, Office of Organizational Effectiveness and Change Management

Guest

Melissa Liebermann, Authorities Unit, Office of the Governor of New Jersey

The Committee meeting was called to order in executive session by the Chair at 11:39 a.m. and ended at 12:08 p.m. Commissioner Blakeman was present for a portion of the meeting.

Action on Minutes

The Secretary reported that the Minutes of the meeting of May 25, 2006 had been signed and distributed to the Commissioners.

Whereupon, the Committee approved the Minutes of the meeting of May 25, 2006.

AUTHORIZATION OF BROKERAGE SERVICES AND PLACEMENT OF COVERAGE FOR OWNER CONTROLLED ENVIRONMENTAL INSURANCE PROGRAM

It was recommended that the Committee on Finance authorize the Executive Director, the Chief Financial Officer, the Treasurer or the Director of Procurement to enter into an agreement with Aon Risk Services, Inc. (Aon), effective September 1, 2006, to place and administer the Port Authority's Owner Controlled Environmental Insurance Program (OCEIP) for a six-year period commencing November 8, 2006 and ending November 8, 2012. The broker fee, which is included in the premium for the insurance, is estimated at \$435,000 for the six-year term. The cost of the insurance and broker fee is estimated at a premium rate of \$0.40 per \$100 of contracts awarded for dredging operations in the Port District by the United States Army Corps of Engineers (Corps) and the Port Authority. Based on an estimated \$951 million of Corps channel dredging contracts and \$42 million in Port Authority maintenance dredging contracts to be awarded over the next six years, the estimated cost of environmental liability insurance is \$4 million.

In accordance with federal law, the Port Authority has been sponsoring a Corps program to deepen the federal shipping navigation channels in the Port District. The Port Authority also awards contracts for maintenance dredging work. The OCEIP provides environmental liability insurance protection for the Port Authority, its contractors and subcontractors, and Corps contractors and subcontractors, against potential financial losses resulting from environmental losses related to these ongoing dredging activities. Under the federal Comprehensive Environmental Response, Compensation and Liability Act and as a sponsor of the Corps' navigation improvement projects in the Port District, the Port Authority may, in certain circumstances, be responsible for the cost of cleaning up hazardous substances released into the environment as a result of Corps dredging activities. Certain of the Corps contractors may carry limited environmental insurance; however, the coverage terms may be restrictive and the capacity insufficient to protect the Port Authority's interests. A comprehensive policy form and substantial coverage limits are necessary to adequately protect the Port Authority and provide additional coverage for Corps contractors and subcontractors. Similar environmental responsibilities may apply to the Port Authority for maintenance dredging work performed by Port Authority contractors. The current OCEIP furnishes coverage limits up to \$20 million for each occurrence, up to a \$150 million aggregate, and up to \$20 million for each incident of pollution legal liability, up to a \$40 million aggregate.

In order to procure insurance coverage to protect the Port Authority against potential losses and to obtain the requisite administrative services for the OCEIP, the Port Authority would engage the services of a licensed insurance brokerage firm. The current brokerage agreement with Aon, which has provided these services for the Port Authority since July 2000, expires on November 8, 2006, coincident with the expiration of the current insurance program. In order to ensure a seamless transition of broker administrative services, and to give the broker sufficient time to prepare and market the upcoming insurance renewals, it is necessary to enter into a brokerage arrangement at this time.

As a result, a Request for Proposals (RFP) was publicly advertised on May 22, 2006 for brokerage services to commence on September 1, 2006 to market and place the insurance for the six-year period commencing on November 8, 2006, and to administer the OCEIP. Three proposals were received and were evaluated by a staff selection committee on the basis of the depth and quality of broker staff experience, technical approach, and depth and quality of firm experience. Cost was evaluated separately to determine a “best buy,” and on the basis of the RFP procurement process, staff has concluded that Aon provided the best proposal, offering the most complete service at the lowest cost to the Port Authority.

Through OCEIP, the Port Authority can better obtain comprehensive insurance protection, with uniform coverages and higher limits for all parties at potentially lower rates, which will facilitate cleanup operations in the event of an environmental/pollution incident.

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 Coscia, Silverman and Steiner voting in favor; none against:

RESOLVED, that the Executive Director, the Chief Financial Officer, the Treasurer or the Director of Procurement, be and each hereby is authorized, for and on behalf of the Port Authority, to enter into an agreement with Aon Risk Services, Inc., effective September 1, 2006, to place and administer the Port Authority’s Owner Controlled Environmental Insurance Program for a six-year period commencing November 8, 2006 and ending November 8, 2012, in accordance with the terms outlined to the Committee, including: (1) the procurement of brokerage services and purchase of insurance at an estimated premium rate of \$0.40 per \$100 of contracts awarded in the Port District by the United States Army Corps of Engineers (Corps) and the Port Authority for channel dredging and maintenance dredging awarded during the six-year period; (2) a broker fee, which is included in the premium; and (3) environmental liability insurance at an estimated premium cost of \$4 million, based on an estimated \$951 million of Corps channel dredging contracts and an estimated \$42 million in Port Authority maintenance dredging contracts to be awarded; and it is further

RESOLVED, that the form of all agreements in connection with the foregoing shall be subject to the approval of General Counsel or his authorized representative.

Whereupon, the meeting was adjourned.

Secretary