

**THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY**

**COMMITTEE ON FINANCE**

**MINUTES**

**Wednesday, April 26, 2006**

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**MINUTES OF COMMITTEE ON FINANCE**

**225 Park Avenue South**

**New York, NY**

**Wednesday, April 26, 2006**

**PRESENT:**

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

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  
Michael G. Fabiano, Deputy Chief Financial Officer/Comptroller  
Aaron Graham, Management Associate, Human Resources  
Robert F. Lurie, Chief of Strategic Planning  
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

Guests

Manuel Angeles, First Albany Capital  
Edward Flynn, First Albany Capital  
Kenneth Gibbs, First Albany Capital  
Lisa Thornton, Authorities Unit, Office of the Governor of New Jersey

The Committee meeting was called to order in executive session by the Chair at 11:07 a.m. and ended at 11:37 a.m. Commissioner Coscia was present for a portion of the meeting.

**Action on Minutes**

The Secretary reported that the Minutes of the meeting of February 23, 2006 had been signed and distributed to the Commissioners.

Whereupon, the Committee approved the Minutes of the meeting of February 23, 2006.

## **AUTHORIZATION OF BROKERAGE SERVICES AND PLACEMENT OF COVERAGE FOR CONTRACTORS' INSURANCE PROGRAM**

It was recommended that the Committee on Finance authorize the Executive Director, the Chief Financial Officer or the Treasurer to enter into an agreement with Aon Risk Services, Inc. (Aon), effective August 1, 2006, to place and administer the Port Authority's Contractors' Insurance Program (CIP) for a three-year period, subject to annual approval based on satisfactory performance. The Port Authority would have the option to extend the agreement for an additional three-year term, with annual approval, based upon satisfactory performance. The total three-year period broker fee is \$4,260,000, and the cost of insurance coverage for the initial three-year period is estimated at \$5.55 per \$100 in construction value. It is further anticipated that certain insurance coverage levels provided under the CIP should be increased; specifically, the General Liability insurance limits should be raised to \$50 million during the initial term. Should the three-year renewal option be exercised, the annual broker fee would be \$1,473,407 for each of the three years, for a total three-year period fee of \$4,420,221 and the cost of insurance for the option period is not expected to exceed \$6.00 per \$100 in construction value. Based on market conditions and the loss climate in the area, the General Liability limit may be raised to \$100 million during the extension period.

The Contractors' Insurance Program provides protection for the Port Authority and its wholly owned corporate entities against potential financial losses resulting from property and casualty losses related to ongoing construction activities undertaken at most Port Authority facilities. The CIP currently furnishes General Liability coverage at a limit of \$25 million, statutory Workers' Compensation coverage, and Builders' Risk coverage at a limit of \$50 million to all enrolled contractors and subcontractors engaged in work under on-site construction, inspection and service contracts of the Port Authority and its wholly owned corporate entities covered under the CIP. In addition, the program provides safety and loss control services, claims management, litigation defense, education and training. The procurement of these coverages by the Port Authority generates significant savings over individual contractor-procured coverage and ensures uniform policy limits and coverage. The CIP also allows for smaller, less established contractors that could not obtain satisfactory insurance coverages to be eligible for Port Authority contracts. It should be noted that the brokerage services and insurance placement for the Permanent World Trade Center PATH Terminal Project are separately provided for under a "carve-out" from the aforementioned CIP, with different insurance limits and terms.

In order to procure insurance coverage to protect the Port Authority and its wholly owned corporate entities against potential losses and to obtain the requisite administrative services for the CIP, the Port Authority is required to engage the services of a licensed brokerage firm. The current brokerage arrangement with Aon, which has provided these services for the Port Authority since August 1999, expires on August 1, 2006. To ensure a seamless transition of daily broker administrative services, and in order for the broker to have sufficient time to prepare and market the upcoming insurance renewals, it is necessary to enter into a broker arrangement prior to August 2006. Accordingly, a request for proposals (RFP) was publicly advertised for brokerage services to assume the administration of the contracts currently in place and all new contracts commencing August 1, 2006. Five proposals were received and evaluated by a selection committee based on the qualifications, availability and experience of the proposed staff, work approach and the depth and quality of the firm's experience, including the proposer's

demonstrated knowledge and understanding of CIP-related issues (*e.g.*, safety and loss control, and alternate risk financing needs). Cost was evaluated separately to determine a “best buy.” As a result of the RFP procurement process, staff has concluded it is appropriate to enter into an agreement with Aon.

For the placement and administration of the CIP for the August 1, 2006 to August 1, 2009 policy terms, the brokerage fee is a total of \$4,260,000 for the initial three-year period of the brokerage agreement. During the RFP procurement process, each broker recommended increasing the General Liability coverage limit, due to increases in personal injury judgments and awards, greater litigation in the area, and the strict liability requirements imposed by the State of New York’s Labor Law. Thus, the estimated cost of insurance for the initial three-year term is \$5.55 per \$100 in construction value for statutory Workers’ Compensation coverage, \$50 million in Builders’ Risk coverage and \$50 million in General Liability coverage. Should the renewal option be exercised, the brokerage fee will be a total of an additional \$4,420,221 for the placement and administration of the insurance program for the August 1, 2009 to August 1, 2012 policy terms, if renewed. The cost of the insurance coverage for the option period is not expected to exceed \$6.00 per \$100 in construction value, including any increased General Liability limits up to \$100 million.

At its meeting of March 30, 2006, the Board authorized the formation of a Port Authority Captive Insurance Company (Captive). The above cost estimates do not include any premium savings that may be derived from utilization of the Captive in connection with the CIP, but are inclusive of any premium costs that would be paid to the Captive for assumption of a \$1 million deductible for all coverages, as well as the premium allocated to the commercial carriers for the coverage in excess of the deductible amount.

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

**RESOLVED**, that the Executive Director, the Chief Financial Officer 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., effective August 1, 2006 to place and administer the Port Authority’s Contractors’ Insurance Program for a three-year period, subject to annual approval based on satisfactory performance, in accordance with the terms outlined to the Committee, including (1) a broker fee; (2) an option to extend the agreement for an additional three-year term; and (3) insurance coverage; and it is further

**RESOLVED**, that the form of the agreement shall be subject to the approval of General Counsel or his authorized representative.

Whereupon, the meeting was adjourned.

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Secretary