



DATE: MARCH 4, 2015

FROM: RISK MANAGEMENT

SUBJECT: RESOLUTION NO. _____ - AGREEMENT FOR INSURANCE BROKERAGE SERVICES BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND ALLIANT INSURANCE SERVICES, INC.

SUMMARY:

The City of Los Angeles Harbor Department (Harbor Department) recommends the Board of Harbor Commissioners (Board) approve a one-year Agreement, with two one-year renewal options, with Alliant Insurance Services, Inc. (Alliant) headquartered in Newport Beach, California, to provide consultative insurance brokerage and risk management services to assist with administration of the Harbor Department's risk management program. The recommendation to select Alliant is based on the Harbor Department's competitive Request for Proposal (RFP) process initiated to replace expiring Agreement 12-3057 with Alliant for such services. The proposed Agreement would authorize the Harbor Department to expend up to \$13,450,000 over a three-year period that covers up to \$231,818 for broker fees, up to \$78,182 for as-needed additional services, and up to \$13,140,000 for insurance expenses. The financial responsibility for payment of services rendered is the Harbor Department's.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners (Board):

1. Find that in accordance with City of Los Angeles Charter Section 1022, work under the subject Agreement can be performed more feasibly by an independent contractor than by City employees;
2. Award the agreement to Alliant for insurance brokerage and risk management services for a term of three years and authorize payments of up to \$231,818 for broker fees and up to \$78,182 for as-needed additional services over a three-year period, estimated at \$103,333 each year, for broker fees and fees for as-needed additional services;
3. Authorize payments up to \$13,140,000 over a three-year period, estimated at \$4,380,000 each year, for insurance expenses;
4. Authorize the Executive Director or a designee to execute the two one-year renewal options for and on behalf of the Board.

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5. Authorize the Executive Director to execute and the Board Secretary to attest to said agreement; and,
6. Adopt Resolution No. _____

DISCUSSION:

Background/Context – The Harbor Department’s risk management program is managed by the Risk Management Division with assistance from a licensed professional insurance broker. The program utilizes widely practiced risk management techniques, which include the purchase of commercial property and liability insurance policies, transfer of risk to third parties, use of self-insured retentions, and use of loss control programs to prevent, mitigate, and prepare for unexpected losses related to risk exposures faced by the Harbor Department as a maritime landlord and governmental entity. Partnership with an insurance broker is commonly practiced by other port and public entities such as the Ports of Long Beach and Seattle, and the Los Angeles Departments of Water and Power and World Airports as insurance brokers are equipped with special training, expertise, access and familiarity with the worldwide insurance market and products, risk management resources that assist with claims management and loss control, and California Department of Insurance required licenses that the Harbor Department staff lacks. The Harbor Department’s current Agreement 12-3057 for risk management and insurance brokerage services was approved by the Board and awarded to Alliant on April 5, 2012, and expires on April 20, 2015.

Commercial property and liability insurance is beneficial as it protects Harbor Department assets and operations from minor accidents to major losses and against injury or damage claims made by other parties. Insurance can provide the financial means to repair, rebuild, or purchase damaged or destroyed assets; cover incidental costs incurred in resuming business operations; and if necessary, pay on behalf, any amount the Harbor Department is obligated to pay, up to the terms of the insurance policy. Holding such insurance is essential to mitigating the operational risk and maintaining the financial stability of the Harbor Department. In addition to commercial insurance, the Harbor Department utilizes self-insured retentions and has set aside an emergency reserve fund. Under a self-insured retention, the Harbor Department retains a fixed amount of risk, including any legal and allocated expense cost for unexpected liability, above which an insurance policy limit attaches. Such self-insured retentions are used to take on more risk to lower premium cost when reasonable and prudent. The emergency fund, part of the Emergency/ACTA (Alameda Corridor Transportation Authority) Fund, sets aside funds for unanticipated expenditures and disaster related recovery. A schedule of insurance is included in Transmittal 02.

The Harbor Department staff is not licensed to procure insurance and because of the type, capacity, and complexity of coverages needed to protect the Harbor Department against its unique maritime exposures, insurance brokers such as Alliant are traditionally utilized.

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Insurance brokers also provide consultative services in the areas of insurance brokerage and risk management including:

- Identifying and analyzing operating risk;
- Recommending financing options for both pre- and post-loss exposures;
- Negotiating policy terms and conditions with insurance underwriters;
- Developing loss control strategies;
- Providing insurance market information; and,
- Assisting with claims management.

Selection Process – In preparation for the expiring Agreement 12-3057, an RFP was posted on the Los Angeles Business Virtual Network, the Port of Los Angeles website, and mailed to 30 firms who expressed interest in receiving the RFP. Five firms submitted proposals. A selection committee composed of three representatives from the Harbor Department's Risk Management Division and a representative from Department of Water and Power evaluated the proposals independently based on the following criteria:

- Firm Qualifications, Experience, and References (20%);
- Personnel Qualifications, Experience, and References (25%);
- Project Approach, Work Plan, and Management (25%);
- Compensation (20%); and
- Clarity and Comprehensiveness of the Proposal (10%)

Following the proposal evaluations, the top three firms were invited to participate in oral interviews. Based upon the scores of the written proposals and the interviews, Alliant ranked first and the selection committee recommends Alliant to be the Harbor Department's insurance broker. Evaluation scores are detailed in Transmittal 03.

Selected Broker: Under Agreement 12-3057, Alliant serves as the Harbor Department's insurance broker and has accumulated three years of experience assisting specifically with the Harbor Department's insurance program. To date, the Harbor Department has spent \$9,899,744 of Agreement 12-3057's authority of \$14,950,000, and Alliant has met the 10% SBE participation goal with \$24,500 paid to the SBE firm, Barragan Corporation International.

In addition to Alliant's experience assisting with the Harbor Department insurance program, Alliant is equipped with strong port and public entity expertise, familiarity with the wide range of available insurance products and intricacies of coverage, access to the worldwide insurance market, and ability to procure competitive rates at broad terms.

Alliant's proposed account service team is located in Seattle, Washington and Southern California. The team has strong port and public entity experience and understands the Harbor

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department's business and unique maritime risk exposures. Alliant is committed to meeting the Small Business Enterprise (SBE) Program participation goal of 10% during the course of the Agreement and has partnered with the SBE firm, Barragan Corporation International located in Temecula, California, for loss control services. A minimum of 10% of Alliant's broker compensation shall go to the SBE firm.

Term and Compensation - The proposed Agreement with Alliant is for one year, with two one-year renewal options, for a potential total of three years. Approval of the proposed Agreement would authorize the Harbor Department to expend up to \$13,450,000 over a three-year period that covers Alliant's broker compensation and insurance expenses:

Total broker compensation, comprised of broker fees and fees for as-needed specialized risk management consulting services and projects, shall not exceed \$231,818 for broker fees and \$78,182 for as-needed additional services for all three years. The broker fee shall be \$75,000 for the first year of the Agreement, \$77,250 for the option-second year, and \$79,568 for the option-third year.

Insurance expenses under the proposed Agreement shall not exceed \$13,140,000 (annual expenditures estimated at \$4,380,000 each year) for insurance payments during the three-year period for the placement of commercial property and liability insurance policies and to cover the Harbor Department's self-insured retentions and deductible payments.

Due to the long lead time involved, the amount requested under the proposed Agreement would need to sufficiently cover the Harbor Department's projected insurance expense for the next three years and allow for contingencies that would arise during the course of the Agreement. Such contingencies include escalation in premium costs resulting from insurance market changes, changes in the Harbor Department's operations, negative variations to the Harbor Department's risk profile, increases in the number or value of capital assets, placement of additional types of insurance policies not currently part of the insurance program, and costs associated with defending multiple claims. The amount to be budgeted each year will be formulated and requested as part of the Harbor Department's annual budget process.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of an Agreement with Alliant for insurance brokerage and risk management consultant services related to the Harbor Department's risk management program. As an administrative activity, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

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ECONOMIC BENEFITS:

Approval of the proposed Agreement will support 2 direct and 2 secondary one-year equivalent jobs for the five-county region.

FINANCIAL IMPACT:

Approval of the proposed Agreement commits the Harbor Department to expend \$50,000 for insurance renewal premiums in the current FY 2014-15 and authorizes a total Agreement amount of \$13,450,000 over a three-year period (consisting of two one-year renewal options subsequent to the initial year for a total of three years). It is anticipated that funds for this Agreement will be expended as follows:

FISCAL YEAR	BROKER COMPENSATION	INSURANCE EXPENSES	AGREEMENT TOTAL
2014-15	\$0	\$50,000	\$50,000
2015-16	\$110,000	\$3,685,000	\$3,795,000
2016-17	\$100,000	\$4,702,500	\$4,802,500
2017-18	\$100,000	\$4,702,500	\$4,802,500
TOTAL	\$310,000	\$13,140,000	\$13,450,000

Funds for FY 2014-15 in the amount of \$50,000 are available in Center 0550, Program 000, Account 59390 for the current fiscal year's projected premium payments. The Harbor Department's financial commitments for the proposed Agreement beyond the current fiscal year will be requested as part of the annual budget adoption process and subject to Board approval. A funding out clause has been included in the Agreement.

An alternative to the insurance brokerage agreement would be for the Harbor Department to fully self-insure all of its property and casualty risk exposures. Fully self-insuring would expose the Harbor Department to potentially significant loss affecting its financial viability and ratings, operational sustainability, and require additional staff to manage the claims and defense once handled by insurance firms. The Harbor Department, like many other ports and public entities, already utilizes a combination of self-insured retention and commercial insurance.

Approval of this proposed Agreement will allow the Harbor Department to retain the services of a licensed insurance broker to assist Risk Management in managing its insurance program, to continue the placement of commercial property and liability insurance policies to mitigate the operational risks, and maintain the financial stability of the Harbor Department. If not approved, the Harbor Department would be unable to place commercial and liability insurance policies as it does not hold an insurance broker's license, resulting in a lapse in coverage, and expose the Harbor Department's financial viability and operational sustainability.

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CITY ATTORNEY:

The Office of the City Attorney has prepared and approved the proposed Agreement as to form and legality.

TRANSMITTALS:

1. Proposed Agreement
2. Schedule of Insurance
3. Firm Evaluation and Rankings



KATHY MERKOVSKY
Risk Manager III

FIS Approval: MB (initials)
CA Approval: MB (initials)



MARLA BLEAVINS
Chief Financial Officer

APPROVED:



GENE SEROKA
Executive Director

KAM:CT:cm
Author: C. Makaena