



**THE PORT
OF LOS ANGELES**
Executive Director's
Report to the

Board of Harbor Commissioners

DATE: MARCH 28, 2012

FROM: RISK MANAGEMENT

SUBJECT: RESOLUTION NO. _____ - APPROVAL OF AN AGREEMENT WITH ALLIANT INSURANCE SERVICES TO PROVIDE INSURANCE BROKERAGE AND RISK MANAGEMENT SERVICES

SUMMARY:

The City of Los Angeles Harbor Department (Harbor Department) is recommending that the Board of Harbor Commissioners (Board) award a one-year contract, with two one-year renewal options, for insurance brokerage and risk management services to Alliant Insurance Services (Alliant) of Newport Beach, California. Under the proposed Agreement, Alliant will serve as the Harbor Department's insurance broker, providing consultative insurance brokerage and risk management services to assist with the administration of the Harbor Department's risk management program and procurement of commercial property and liability insurance. Approval of the proposed Agreement would authorize the Harbor Department to expend up to \$14,950,000 over a three-year period that covers up to \$350,000 (estimated at about \$116,667 each year) for Alliant's broker fees and up to \$14,600,000 (estimated at about \$4,866,667 each year) for insurance expenses.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners:

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. Approve the Agreement with Alliant Insurance Services, Inc. to provide insurance brokerage and risk management services for a term of one-year with two one-year renewal options and authorize payments of up to \$350,000 over the three-year period, estimated at \$116,667 each year, for broker fees;
3. Authorize payments of up to \$14,600,000 over the three-year period, estimated at \$4,866,667 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 this Agreement for and on behalf of the Board; and
6. Adopt Resolution No. _____.

DISCUSSION:

Background - The Harbor Department has a risk management program that is administered and managed by the Risk Management Section of the Finance Division with the assistance of a professional insurance broker. The risk management program utilizes widely practiced risk management techniques which include the purchase of commercial property and liability insurance policies, the transfer of risk to a third party, use of self-insured retentions to take on more risk to lower premium cost when reasonable and prudent, and the use of loss control programs to prevent and mitigate risk exposures.

The purchase of commercial property and liability insurance policies is a primary risk management component needed to effectively manage the large risk exposures faced by a maritime landlord and governmental entity such as the Harbor Department and is commonly practiced by other ports, such as the Port of San Diego, Port of Long Beach, Port of Seattle, and Port of Oakland, and also City of Los Angeles departments including the Los Angeles Department of Water and Power, and the Los Angeles World Airports. 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. In the event of a covered loss, insurance can provide the financial means to repair, rebuild, or purchase damaged or destroyed assets; cover incidental costs incurred in resuming business operations; provide legal defense counsel; 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 risks and maintaining the financial stability of the Harbor Department. A schedule of insurance is included in Transmittal 3.

Insurance brokers such as Alliant have traditionally been utilized to purchase insurance as Harbor Department staff are not licensed to procure insurance and because the type, capacity, and complexity of coverages needed to protect the Harbor Department require licensed professionals with 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 the most competitive rates with the best terms available. The insurance broker provides consultative services in the areas of insurance brokerage and risk management including; identifying and analyzing the Harbor Department's operating risk; providing options and recommendations on controlling and financing the exposures on both a pre-loss and post loss basis; developing loss control strategies; provide assistance with claims management; providing information as to the insurance market; and negotiating terms and conditions with insurance underwriters in

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favor of the Harbor Department. This partnership provides protection to the Harbor Department, ensuring there is adequate insurance coverage for our unique maritime exposures and that the Harbor Department can proactively react to changing insurance market conditions. Similar partnerships are in place at other ports and government entities.

Selection Process - A Request for Proposals (RFP) for insurance brokerage and risk management services was issued in October 2011. The RFP was posted on the Los Angeles Business Virtual Network, the Port of Los Angeles website, and mailed to 36 individuals/firms who had expressed interest in receiving the RFP. The Harbor Department received proposals from five firms. A four member panel composed of three representatives from Risk Management and one representative from the Department of Water & Power evaluated the proposals and subsequently conducted interviews based on selection criteria that included firm qualification, account service team qualification, project approach, project management, and fees. Following the evaluation of the five proposals, the panel selected the top three firms for oral interviews held in January 2012.

Based upon the scores of the evaluations of the written proposals and the interviews, the panel recommends Alliant to be the Harbor Department's insurance broker. Alliant has proposed a service team with strong port and public entity experience who understands the Harbor Department's business and unique insurance requirements. The evaluation scores of the written proposal and interviews are detailed in Transmittal 2.

Selected Broker - The account service team members proposed by Alliant to provide the insurance brokerage and risk management services to the Harbor Department are located in Seattle, Washington, and Los Angeles, California, while their headquarters is located in Newport Beach, California. The primary account executives and insurance placement team members that shall work with the Harbor Department are based out of the Seattle office. 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 two SBE firms, Barragan Corporation International, located in Temecula, California, and Bedford Falls Insurance Services, located in Los Angeles, California, for loss control services and specialty insurance placement. A minimum of 10% of Alliant's compensation shall go to these two SBE firms.

The proposed Agreement (Transmittal 1) 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 \$14,950,000 over a three-year period that covers up to \$350,000 (estimated at about \$116,667 each year) for Alliant's broker fees and up to \$14,600,000 (estimated at about \$4,866,667 each year) for insurance expenses.

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The total broker compensation shall not exceed \$350,000 for all three years of the Agreement. The broker fee shall be \$80,000 for the first year of the Agreement, \$82,400 for the second year, and \$84,000 for the third year for a total of \$246,400. In addition, the proposed Agreement with Alliant will also allow the Harbor Department to request as-needed specialized risk management consulting services and projects and is estimated to cost \$34,534 each year for a total of \$103,600. In addition, the Agreement allows the Harbor Department to expend up to \$14,600,000 in 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. Annual expenditures for each year is estimated to be about \$4,866,667.

Due to the long lead time involved, the amount requested under the proposed agreement would need to sufficiently cover Harbor Department's projected insurance expenses 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 services. As an administrative activity, the Director of Environmental Management has determined that the proposed action is exempt from the California Environmental Quality Act (CEQA) in accordance with Article II, Section 2(f) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

Spending under this Agreement will have minimal employment impact (less than one job) in the five-county region.

FINANCIAL IMPACT:

Approval of the proposed Agreement commits the Harbor Department to expend \$600,000 for insurance brokerage services in the current FY 2011-12 and authorizes a total Agreement amount of \$14,950,000 over a three-year period (consisting of two one-year renewal option subsequent to the initial year for a total of three years). It is anticipated that funds for this Agreement will be expended as follows:

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FISCAL YEAR	BROKER COMPENSATION	INSURANCE PAYMENTS	AGREEMENT TOTAL
2011-12	\$40,000	\$560,000	\$600,000
2012-13	\$110,000	\$4,178,000	\$4,288,000
2013-14	\$120,000	\$4,931,000	\$5,051,000
2014-15	\$80,000	\$4,931,000	\$5,011,000
TOTAL	\$350,000	\$14,600,000	\$14,950,000

Funds for FY 2011-12 in the amount of \$40,000 are available in Center 0550, Program 000, Account 54490 for the broker fee. Funds in the amount of \$560,000 are available in Center 0550, Program 000, Account 59310 and Account 59350 to meet the current fiscal year's projected premium payments. Funding for future fiscal years will be requested to be budgeted as part of the annual budget adoption process, subject to Board approval each fiscal year.

The Harbor Department's financial commitments for the proposed Agreement beyond the current fiscal year are contingent upon approval of funds by the Board as part of the annual budget adoption process. If any subsequent fiscal year funds are not appropriated by the Board for the work required by the Agreement, the Agreement shall be terminated. However, such termination shall not relieve the parties of liability for any obligations previously incurred. A funding out clause is included in the Agreement.

The primary alternative for the Harbor Department would be to fully self-insure all of its property and casualty risk exposures. In practice, most firms utilize a combination of self-insurance and commercial insurance as oppose to fully self-insuring. 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 the insurance firms. The Harbor Department, like many other ports and public entities, already utilizes a combination of self-insurance and commercial insurance.

The secondary alternative for the Harbor Department would be to consider pooling its part of its insurance needs with other City of Los Angeles departments. This approach has been considered in the past and the Harbor Department believes that it is in its best financial interest to have its own insurance program, versus pooling, due to its unique maritime exposures, the insurance market's capacity, and premium savings. Prior to 1993, the Harbor Department participated in a pooled program, California Association of Port Authorities (CAPA), until it was discovered that the same type and amount of insurance could be solely purchased by the Harbor Department at a lower premium. In 2004, the Harbor Department revisited pooling with CAPA and the same results were obtained, that there was not a cost savings. Most recently, in 2010, the Harbor Department looked at pooling with the City and its proprietary departments. The Harbor Department and the proprietary departments agreed that each should maintain its own insurance program,

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which provided the most appropriate insurance coverages for each. Also, this conclusion was consistent with the State of California Tidelands Trust Act, which prevents the Harbor Department from diverting funds for non-maritime related activities.

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.

CITY ATTORNEY:

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

TRANSMITTALS:

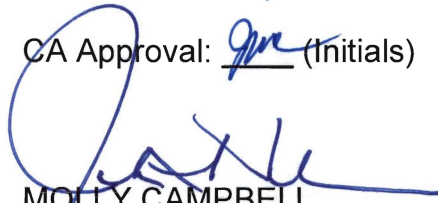
1. Proposed Agreement
2. Consultant Evaluation and Rankings
3. Schedule of Insurance

FIS Approval: KY (Initials)

CA Approval: MC (Initials)




KARL K. Y. PAN
Chief Financial Officer



MOLLY CAMPBELL
Deputy Executive Director

APPROVED:



GERALDINE KNATZ, Ph.D.
Executive Director

KP:KM:CT
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