



FINANCE AND BUDGET COMMITTEE
NOVEMBER 18, 2004

SUBJECT: CONTRACT NO. PS-5310-1573, INSURANCE BROKERAGE SERVICES -
AON RISK SERVICES, INC.

ACTION: APPROVE CONTRACT AWARD FOR INSURANCE BROKERAGE
SERVICES

RECOMMENDATION

Authorize the Chief Executive Officer to award a seven-year, fixed fee contract, Contract No. PS-5310-1573, to Aon Risk Services, Inc. for Insurance Brokerage Services in an amount of \$2,728,859 inclusive of two one-year options, effective January 1, 2005.

RATIONALE

The Los Angeles County Metropolitan Transportation Authority uses the services of a broker to purchase insurance for all of its non-construction exposures. This broker will market the Agency's excess liability, all risk property, boiler and machinery, fidelity, and other types of insurance coverages required. With over \$10 million in annual premiums, the expertise and market access of a professional broker is necessary for a competitive and cost effective program.

A current insurance brokerage contract was extended in April 2004 for a period of 12 months, inclusive of six one-month options. The initial six-month period will expire on October 31, 2004. Risk Management has exercised the option to continue this contract through December 31, 2004.

Insurance coverage for Excess Liability and All-Risk Property, Boiler and Machinery, and other types of insurance are critical. The placement of these policies requires the expertise of an insurance broker who has access to the worldwide insurance market and who has the qualified personnel to place these policies.

The placement of these policies on a timely basis, at the appropriate levels, mitigates the possibility of large casualty and property losses. Placement of insurance policies is also necessary because certain contracts, such as leaseback agreements, require insurance. In addition, failure to renew insurance policies could result in losing eligibility for FEMA reimbursements for property losses caused by natural disaster.

Upon approval by the Board, this contract will be effective January 1, 2005 and the initial five-year period will terminate on December 31, 2010. If it is beneficial to exercise the two one-year options, the contract would continue through December 31, 2012.

DISCUSSION

Aon had proposed a fee of \$393,750 per year, for a total seven-year contract value of \$2,756,250, inclusive of the two one-year options. Staff negotiated a reduction of the fee to \$389,837 per year for a maximum contract value of \$2,728,859.

The negotiated fee is higher than the original fee established in September 2000 because the original fee has been fixed for more than 4 years and does not reflect inflationary increases for labor, materials and other non-labor expenses. In addition, the proposed fee will be fixed for up to seven years, with no opportunity for increases to cover future inflationary increases.

A second reason for the cost increase reflects expectations for additional services that were not included in the original contract and the expanded services that Aon is currently providing. Examples of these services include the following:

- Assist in the filing and resolution of a \$10 million environmental insurance claim on the Orange Line project.
- Provided extensive review and analysis of insurance policies provided by contractor on the Gold Line Eastside Expansion Project.
- Provided analysis of insurance requirements for Division Expansion project and provided recommendations that will be beneficial
- Reviewed insurance requirements stipulated in agreement with Catellus for the Eastside Expansion and made recommendations for a reduction in coverage required by Catellus.
- Reviewed Builder's Risk insurance requirements for joint project with Caltrans for construction of freeway overpass on Hollywood Freeway. Placed Builder's Risk policy for Construction.
- Participates in several seminars each quarter aimed at furthering the understanding of insurance risks associated with projects and the need for various types of insurance coverages and associated limits.
- Provides insurance expertise to Risk Management Staff on insurance issues related to Procurement projects, Real Estate Agreements, Art contracts and other agency projects. The Los Angeles County Metropolitan Transportation Authority consults daily with the insurance broker staff.
- Market and place Pollution Legal Liability and Builder's Risk insurance policy for the Orange Line Project and part of the Eastside Project.

FINANCIAL IMPACT

The maximum financial impact of this seven-year contract (January 1, 2005 to December 31, 2012) is \$2,728,859. Funding of \$227,405 for the services to be provided in FY05 is included in the FY05 Budget in Cost Center 0531, Non-Departmental Operations-Risk Management, in Account 50316, Professional Services, in the following projects: Project 301001 – SFV Sector; Project 302001 – SGV Sector; Project 303001 – Gateway Sector; Project 304001 – South Bay Sector; 305001 – Westside/Central Sector; Project 300022 – Blue Line; Project 300033 – Green Line; Project 300044 – Red Line and Project 300055 – Gold Line.

Since this is a multi-year project, the Executive Officer of Risk Management is responsible for budgeting the remaining expense in future years.

In FY04, \$240,000 was expended for this category of expense.

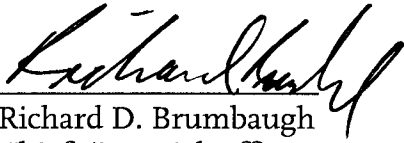
ALTERNATIVES CONSIDERED

Staff considered the alternative of issuing a solicitation where The Los Angeles County Metropolitan Transportation Authority would purchase its own insurance without the use of a broker; however, it was determined that it would not be a feasible option as the expertise and market access of a professional broker is essential for structuring the most competitive and cost effective program.

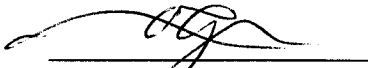
ATTACHMENTS

A. Procurement Summary

Prepared by: Greg Kildare
Executive Officer of Risk Management



Richard D. Brumbaugh
Chief Financial Officer



Roger Snoble
Chief Executive Officer

PROCUREMENT SUMMARY

INSURANCE BROKERAGE SERVICES

1.	Contract Number: PS-5310-1573		
2.	Recommended Vendor: Aon Risk Services, Inc.		
3.	Cost/Price Analysis Information:		
	A. Bid/Proposed Price: \$2,756,250	Recommended Price: \$2,728,859	
	B. Details of Significant Variances are in Attachment A-1.D		
4.	Contract Type: Firm Fixed Price		
5.	Procurement Dates:		
	A. Issued: July 16, 2004		
	B. Advertised: July 21 & 22, 2004 in newspapers; and Website		
	C. Pre-proposal Conference: July 23, 2004		
	D. Proposals Due: August 13, 2004		
	E. Pre-Qualification Completed: August 30, 2004		
	F. Conflict of Interest Form Submitted to Ethics: August 17, 2004		
6.	Small Business Participation:		
	A. Bid/Proposal Goal: 20% DBE	Date Small Business Evaluation Completed: August 17, 2004	
	B. Small Business Commitment: 20% Details are in Attachment A-2		
7.	Invitation for Bid/Request for Proposal Data:		
	Notification: 57	Bids/Proposals Picked up: 22	Bids/Proposals Received: 1
8.	Evaluation Information:		
	A. Bidders/Proposers Names: Aon Risk Services of Southern California	<u>Bid/Proposal Amount:</u> \$2,756,250	<u>Best and Final Offer Amount:</u> \$2,728,859
	B. Evaluation Methodology: Technically Acceptable, Lowest Price		
9.	Protest Information: N/A		
	A. Protest Period End Date: November 23, 2004		
	B. Protest Receipt Date: N/A		
	C. Disposition of Protest Date: N/A		
10.	Contract Administrator: Maria V. Lechuga	Telephone Number: 922-7206	
11.	Project Manager: Greg Kildare	Telephone Number: 922-4971	

PROCUREMENT HISTORY

INSURANCE BROKERAGE SERVICES

A. Background on Contractor

Aon Risk Services has an office in Los Angeles, California. It was formed in 1982 through the merger of Ryan Insurance Group and Combined International Corporation. Aon Risk Services provides risk management insurance services and consulting solutions for commercial and industrial enterprises, financial institutions, insurance organizations, municipalities and individuals.

Aon has been under contract with The Los Angeles County Metropolitan Transportation Authority since September 2000 when it was awarded Contract PS-5310-0655 to provide Non-Construction Insurance Brokerage Services. The contract was awarded as a firm fixed price contract for a period of three years in an amount not to exceed \$720,000. The contract was due to expire on August 31, 2003, but was subsequently extended for five months to January 31, 2004 under authority of the Chief Executive Officer, Mr. Roger Snoble and then extended again to January 31, 2005 under authority of the Board. The award of this contract will replace Contract PS-5310-0655.

Aon was also awarded Contract No. PS-0532-1235 for Construction Insurance Brokerage Services in a not to exceed amount of \$1,079,819 effective November 1, 2002. The contract was awarded as a five-year firm-fixed price contract that was divided into two phases: Phase 1, Brokerage of Insurance Coverages and Phase 2, Implementation and Administration of the Rolling Wrap-Up Insurance Program. Only Phase 1 of the contract was exercised. Aon has provided satisfactory performance on both of the contracts

Aon has done business with the following agencies:

Alameda Corridor

City of Los Angeles

Santa Clara Valley Transit Authority

Port of Oakland

Port of Seattle

Port of New York City

B. Procurement Background

This procurement for this contract was Technically Acceptable, Lowest Price. The Diversity and Economic Opportunity Department recommended a 20% goal for this procurement.

C. Evaluation of Proposals

This procurement was Technically Acceptable, Lowest Price, a standard procurement that is in compliance with the Procurement policies and procedures. The members of the SSC reviewed the documentation provided independently and gave the proposer a passing grade with no reservations.

D. Cost/Price Analysis Explanation of Variances

In response to our solicitation, a proposal was received from Aon Risk Services. Aon Risk Services proposed a total amount of \$2,756,250 for the entire contract period of seven years, inclusive of the two one-year options. The proposed amount of \$2,756,250 is \$824,250 above independent estimate of \$1,932,000. Estimate was based on actual yearly expenditures under the previous contract. The estimate did not, however, take into consideration a significant expansion of services required as part of the current scope of work in order to minimize loss exposure. These additional services include: assisting with filing and resolution of environmental insurance on the Orange Line project; review and analysis of insurance policies for the Gold Line Eastside Expansion project and for other division expansion projects; review of Builder's Risk insurance requirements for the joint project with Cal Trans for construction of freeway overpass on Hollywood Freeway; providing several training seminars each quarter to staff on insurance risks associated with projects, insurance coverages and associated limits; market and place Pollution Legal Liability and Builder's Risk insurance policy for the Orange Line Project, etc. Further, the estimate did not take into consideration an allowance for inflation over the period of performance.

Aon's proposal represents a 62.4% increase over the cost for Brokerage Services under the previous contract. As indicated above, this increase is attributed to a significant expansion in the services required and inflation. In order to compare pricing, staff contacted several transit agencies that utilize brokerage services. Due to the wide variances in the level of services provided and differences in the size of the agencies queried, results were inconclusive. Attempts to obtain cost data from Aon have been unsuccessful. That being said, Aon's proposal was submitted under the presumption of competition and is, therefore, determined to be fair and reasonable. Staff was able to negotiate a small, yearly price reduction of \$3,913. Project staff reviewed the proposed hours and labor classifications and determined them to be acceptable.

BOARD REPORT
LIST OF SUBCONTRACTORS

INSURANCE BROKERAGE SERVICES

PRIME CONTRACTOR – Aon Risk Services, Inc.

Small Business Commitment

Other Subcontractors

Cumbre Inc. 20%

None

Total Commitment 20%