



**Metro**

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Metropolitan Transportation Authority

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FINANCE AND BUDGET COMMITTEE  
APRIL 15, 2004

**SUBJECT: NON-CONSTRUCTION BROKERAGE SERVICES/  
PROPERTY, BOILER AND MACHINERY  
INSURANCE PROGRAM FOR OPERATIONS**

**ACTION: RATIFY AND AMEND AON RISK SERVICES CONTRACT AND  
PURCHASE ALL RISK PROPERTY AND  
BOILER AND MACHINERY INSURANCE**

RECOMMENDATION

- A. Ratify a three-month expenditure to Contract No. PS-5310-0655 with Aon Risk Services, Inc. in the amount of \$60,000 for Non-Construction Brokerage Services revising the total contract value from \$996,198 to \$1,056,198;
- B. Authorize the Chief Executive Officer to execute contract Modification No. 3 with Aon Risk Services Inc. to provide Non-Construction Brokerage Services for a period of twelve months beginning May 1, 2004 inclusive of six one-month options in an amount not to exceed \$240,000 for a total revised contract value from \$1,056,198 to \$1,296,198;
- C. Authorize the Chief Executive Officer to negotiate and execute All Risk Property and Boiler and Machinery Insurance Policy for all Metro property in an amount not to exceed \$5,600,000 for a twelve-month period effective May 10, 2004 to May 10, 2005.

RATIONALE

Metro uses the services of a broker to purchase insurance for all of its non-construction exposures. This broker markets operations' excess liability, all risk property, boiler and machinery, and fidelity coverage. With over \$10 million in annual premiums, the expertise and market access of a professional broker is essential to structure the most competitive and cost effective program. Metro's insurance brokerage contract expired on January 31, 2004, and Aon has been providing services under the expired contract.

The current all risk property and boiler and machinery insurance policies have an expiration date of May 10, 2004. Without brokerage services to market our program, Metro will not be able to purchase this insurance. Aon Risk Services has continued to work on the renewal without a contract.

Failure to renew the property insurance may result in losing eligibility for FEMA reimbursement for property losses caused by natural disasters. Metro would also be in violation of contracts and agreements such as the leaseback agreements, requiring the agency to carry property insurance.

Staff considered various scenarios on the level of deductibles and limits of coverage (see Attachment B). The proposed Option D is recommended due to premium savings resulting from carving out larger self insured layers and raising deductibles. Purchasing more expensive coverage (Options A through C) is not recommended, as very few Metro locations would be covered in the event of a total loss. Raising deductibles is also not recommended because the premium savings is small relative to the additional self-insured exposure.

## BACKGROUND

Contract No. PS-5310-0655 was awarded to Aon Risk Services to provide Non-Construction Brokerage Services involving marketing, evaluating, negotiating and placing the operations insurance program as well as supporting Metro in the administration of the insurance programs. The contract was for a period of three years, from September 1, 2000 to August 31, 2003. The contract was awarded as a Firm Fixed Price contract in the amount of \$720,000.

The contract modification (Modification No. 1) was approved at the May 23, 2003 Board meeting, increasing the total contract value by \$176,198 for costs incurred in providing temporary worker's compensation technical/professional personnel to meet statutory and contractual reporting requirements during the period of January 2003 through March 2003. The total contract value after Modification No. 1 was \$896,198.

RFP No. PS-5310-1355 was released on May 1, 2003, to allow sufficient time for a new contract to be awarded by August 31, 2003. However, at the time proposals were due, Aon Risk Services submitted the only responsive proposal. Due to audit findings from Management Audit Services, it was determined by Risk Management that it would be in the agency's best interests to cancel the solicitation and re-bid a revised Statement of Work that reflected the changes required by the Risk Management Department. In order to allow for sufficient time for Procurement to reissue a revised Statement of Work for the insurance brokerage services, Modification No. 2 was necessary to extend the period of performance for Aon Risk Services to January 31, 2004, increasing the contract by \$100,000 for a new total Firm Fixed Price of \$996,198.

In January, staff considered the alternative of issuing a solicitation where Metro would purchase its own insurance without the use of a broker and allowed the broker contract to lapse. Self-brokering is infeasible, however, because of the complexity and types of insurance carriers solicited for Metro's program. The expertise and market access of a professional broker is essential to structure the most competitive and cost effective program.

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## **FINANCIAL IMPACT**

### **A. Brokerage Services:**

The maximum financial impact of this twelve-month contract (February 1, 2004 to January 31, 2005) is \$240,000. Funding of \$100,000 for the services to be provided for the period February 1, 2004 through June 30, 2004 is included in the FY04 budget in Cost Center 0531, Non-Departmental Operations – Risk Management in Project 300055 – Gold Line, Project 301001 – SFV Sector, Project 302001 – SGV Sector, Project 303001 – Gateway Sector, Project 304001 – South Bay Sector and 305001 – Westside/Central Sector.

Since this is a multi year project, the Executive Officer of Risk Management is responsible for budgeting the remaining expense in FY05.

In FY03, \$240,000 was expended for this category of expense.

### **B. All Risk Property Insurance:**

Funding for two months of this \$5,600,000 procurement (\$933,334) is budgeted in the FY04 budget in cost center 0531, Non-Departmental Operations-Risk Management. It is funded in Projects 100001 General Overhead, 300022 Blue Line, 300033 Green Line, 300044 Red Line, 300055 Gold Line, 301001 SFV Sector, 302001 SGV Sector, 303001 Gateway Sector, 304001 South Bay Sector and 305001 Westside/Central Sector.

Since this is a multi-year project, the Executive Officer is responsible for budgeting the remaining expense in FY05.

In FY03, \$5,508,241 was expended on this item.

## **ALTERNATIVES CONSIDERED**

Staff considered the alternative of issuing a solicitation where Metro 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 to structure the most competitive and cost effective program. Furthermore, there are no viable alternatives to renewing the property insurance program because Metro is contractually obligated to maintain the coverage.

The recommended Option D is identical to the current Property Program and secures the All Risk deductible at \$250,000 with a third level self insured retention value of

The recommended insurance program (Option D) is designed to:

- ✓ Purchase \$265 million in All Risk Property insurance to cover building structures and rolling stock
- ✓ Provide real property insurance coverage for Earthquake and Flood up to \$30 million
- ✓ Provide the most comprehensive coverage at the best pricing
- ✓ Insure Boiler and Machinery assets to protect against financial loss

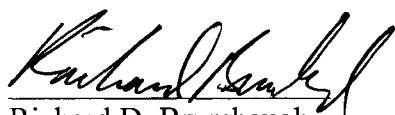
Premium History for Property and Boiler and Machinery Policies  
Ending in the Following Fiscal Years

	FY00	FY01	FY02	FY03	FY04 (Current)	FY05 (Projected)
All Risk Property	\$2.53 Mil	\$3.33 Mil	\$4.68 Mil	\$5.4 Mil	\$5.5 Mil	\$5.5 Mil
Boiler & Machinery	\$85,000	\$99,567	\$135,000	\$100,000	\$100,000	\$100,000
Total Premium	\$2.6 Mil	\$3.4 Mil	\$4.8 Mil	\$5.5 Mil	\$5.6 Mil	\$5.6 Mil
(TIV = Total Ins. Values)	\$4.0 Bil	\$4.8 Bil	\$4.8 Bil	\$5.2 Bil	\$5.8 Bil	\$6.0 Bil

**ATTACHMENTS**

- A. Procurement Summary
- B. Insurance Program Scenarios with Charts
- C. Current Program Structure

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Acting Executive Officer of Risk Management



Richard D. Brumbaugh  
Chief Financial Officer



Roger Snoble  
Chief Executive Officer

## PROCUREMENT SUMMARY

NON-CONSTRUCTION BROKERAGE SERVICES/  
PROPERTY, BOILER AND MACHINERY  
INSURANCE PROGRAM FOR OPERATIONS

1.	Contract Number: PS-5310-0655 (MODIFICATION TO CONTRACT)		
2.	Recommended Vendor: AON Risk Services of Southern California		
3.	Cost/Price Analysis Information:		
	A. Bid/Proposed Price: \$240,000	Recommended Price: \$240,000	
	B. Details of Significant Variances are in Attachment A-1.D		
4.	Contract Type: Firm Fixed Price		
5.	Procurement Dates:		
	A. Issued: N/A		
	B. Advertised: N/A		
	C. Pre-proposal Conference: N/A		
	D. Proposals Due: N/A		
	E. Pre-Qualification Completed: N/A		
	F. Conflict of Interest Form Submitted to Ethics: N/A		
6.	Small Business Participation:		
	A. Bid/Proposal Goal: 15% DBE	Date Small Business Evaluation Completed:	
	B. Small Business Commitment: 15% Details are in Attachment A-2		
7.	Invitation for Bid/Request for Proposal Data:		
	Notification: N/A	Bids/Proposals Picked up: N/A	Bids/Proposals Received: N/A
8.	Evaluation Information:		
	A. Bidders/Proposers Names:  AON Risk Services of Southern California	<u>Bid/Proposal Amount:</u>  \$240,000	<u>Best and Final Offer Amount:</u>  \$240,000
	B. Evaluation Methodology: N/A Details are in Attachment A-1.C		
9.	Protest Information: N/A		
	A. Protest Period End Date: N/A		
	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

NON-CONSTRUCTION BROKERAGE SERVICES/  
PROPERTY, BOILER AND MACHINERY  
INSURANCE PROGRAM FOR OPERATIONS**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 MTA 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 extended for five months to January 31, 2004 under authority of the Chief Executive Officer, Mr. Roger Snoble.

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 with the MTA.

AON has done business with:  
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 action is a modification to Contract PS-5310-0655, Non-Construction Insurance Brokerage Services, to extend the period of performance from February 1, 2004 for a period of twelve months inclusive of six one-month options.

C. Evaluation of Proposals

This is a modification to the contract; proposals not required.

D. Cost/Price Analysis Explanation of Variances

The recommended price has been determined to be fair and reasonable based upon the Contractor's offer to continue utilizing the same rate that was agreed to when the contract was originally awarded in September 2000, which was \$20,000 per month.



## LIST OF SUBCONTRACTORS

NON-CONSTRUCTION BROKERAGE SERVICES/  
PROPERTY, BOILER AND MACHINERY  
INSURANCE PROGRAM FOR OPERATIONS

PRIME CONTRACTOR – AON Risk Services of Southern California

Small Business CommitmentOther Subcontractors

No subcontractors participating under  
Modification No. 3

None

Total Commitment            15%

SMALL BUSINESS PARTICIPATION (PS-5310-0655)

This Contract has a Disadvantaged Business Enterprise (DBE) participation commitment of 15%. The Contract was awarded on July 27, 2000 and is approximately 100% complete. Current DBE attainment<sup>1</sup> based on the relevant amount<sup>2</sup> is 12.3 %. Current DBE participation<sup>3</sup> based on total actual amount paid-to-date to the Prime Contractor and total actual amount paid-to-date to the DBE is 12.3%. The Diversity & Economic Opportunity Department (DEOD) will evaluate Amendment 3, to determine its impact on DBE participation and attainment, upon receipt of the required cost information.

Original Award Amount	\$ 720,000.00
Current Contract Amount <sup>1</sup>	\$ 996,198.00
Total Actual Amount Paid to Date to Prime	\$ 996,198.00

## Small Business Participation:

Total Commitment	% Complete	Total Current Attainment	Total Current Participation	Compliance Status
15.0%	100%	12.3%	12.3%	<b>Not meeting goal</b>

<u>Subcontractor's Name</u>	<u>% Commitment</u>	<u>% Complete</u>	<u>% Current Attainment</u>	<u>% Current Participation</u>
Cumbre, Inc.	15.0%	100.0%	12.3%	12.3%
<b>TOTAL</b>	<b>15.0%</b>	<b>100.0%</b>	<b>12.3%</b>	<b>12.3%</b>

<sup>1</sup>Current Attainment = Total Actual Amount Paid-to-Date to DBE Subs ÷ Total Current Contract Amount

<sup>2</sup>Relevant Contract Amount = Original Contract Value + Contract Cost Modifications

<sup>3</sup>Current Participation = Total Actual Amount Paid-to-Date to DBE Subs ÷ Total Actual Amount Paid-to-Date to

ATTACHMENT B

Limits/Deductible	Current Policy	Option A	Option B	Option C	Option D	Option E	Option F	Option G
All Risk (Except EQ and Flood)	\$250,000 deduct \$35 Mil Retention	\$250,000 deduct No Retention	\$750,000 deduct No Retention	\$1 Mil deduct No Retention	\$250,000 deduct \$35 Mil Self- Retention	\$750,000 deduct \$35 Mil Self- Retention	\$250,000 deduct \$55 Mil Self- Retention	\$750,000 deduct \$55 Mil Self- Retention
Earthquake and Flood	\$300 Mil split/\$250,000 30 Mil/5%*	\$300 Mil full/\$250,000 30 Mil/5%*	\$300 Mil full/\$750,000 30 Mil/5%*	\$300 Mil full/\$1 M 30 Mil/5%*	\$300 Mil split/\$250,000 30 Mil/5%*	\$300 Mil split/\$750,000 30 Mil/5%*	\$300 Mil split/\$250,000 30 Mil/5%*	\$300 Mil split/\$750,000 30 Mil/5%*
Not to Exceed Premium for All- Risk Property Policy	\$5,500,000	\$10,000,000	\$9,100,000	\$8,750,000	\$5,500,000	\$5,400,000	\$5,300,000	\$5,200,000
Not to Exceed Premium for Boiler & Machinery Policy	\$100,000	\$125,000	\$125,000	\$125,000	\$100,000	\$100,000	\$100,000	\$100,000
Total Not to Exceed Premium	\$5,600,000	\$10,125,000	\$9,225,000	\$8,875,000	\$5,600,000	\$5,500,000	\$5,400,000	\$5,300,000
*\$250,000 minimum deductible for earthquake and flood								



Recommended Program

**Option A:** Metro fully insures up to \$300 Mil after a \$250,000 deductible. No Self Insured Retention

Excess Limit		Layer(s)
\$300M	ALL RISK EXCLUDING FLOOD & EQ	\$75M x s \$225M
\$225M		\$140M x s \$85M
\$85M		\$20M x s \$65M
\$65M	\$35M x s \$30M	
\$30M	ALL RISK INCLUDING FLOOD & EQ	\$20M x s \$10M
\$10M		\$10M

**Option B:** Metro fully insures up to \$300 Mil after a \$750,000 deductible. No Self Insured Retention

Excess Limit		Layer(s)
\$300M	ALL RISK EXCLUDING FLOOD & EQ	\$75M x s \$225M
\$225M		\$140M x s \$85M
\$85M		\$20M x s \$65M
\$65M	\$35M x s \$30M	
\$30M	ALL RISK INCLUDING FLOOD & EQ	\$20M x s \$10M
\$10M		\$10M

**Option C:** Metro fully insures up to \$300 Mil after \$1M. No Self Retention

**Option D:** Metro self-insures third layer \$35M excess after a \$250,000 deductible.

Excess Limit		Layer(s)
\$300M	ALL RISK EXCLUDING FLOOD & EQ	\$75M x s \$225M
\$225M		\$140M x s \$85M
\$85M		\$20M x s \$65M
\$65M	\$35M x s \$30M	
\$30M	ALL RISK INCLUDING FLOOD & EQ	\$20M x s \$10M
\$10M		\$10M

Excess Limit		Layer(s)
\$300M	ALL RISK EXCLUDING FLOOD & EQ	\$75M x s \$225M
\$225M		\$140M x s \$85M
\$85M		\$20M x s \$65M
\$65M	\$35M x s \$30M Metro Self Insured	
\$30M	ALL RISK INCLUDING FLOOD & EQ	\$20M x s \$10M
\$10M		\$10M

**Option E:** Metro self-insures third layer \$35 Mil after a \$750,000 deductible.

Excess Limit		Layer(s)
\$300M	ALL RISK EXCLUDING FLOOD & EQ	\$75M x s \$225M
\$225M		\$140M x s \$85M
\$85M		\$20M x s \$65M
\$65M	\$35M Metro Self Insured	
\$30M	ALL RISK INCLUDING FLOOD & EQ	\$20M x s \$10M
\$10M		\$10M

**Option F:** Metro self-insures third layer up to \$55 Mil after a \$250,000 deductible.

Excess Limit		Layer(s)
\$300M	ALL RISK EXCLUDING FLOOD & EQ	\$75M x s \$225M
\$225M		\$140M x s \$85M
\$85M	\$55M Metro Self Insured	
\$30M	ALL RISK INCLUDING FLOOD & EQ	\$20M x s \$10M
\$10M		\$10M

**Option G:** Metro self-insures third layer \$55 Mil after a \$750,000 deductible.

Excess Limit		Layer(s)
\$300M	ALL RISK EXCLUDING FLOOD & EQ	\$75M x 5 \$225M
\$225M		\$140M x 5 \$85M
\$85M	\$55M Metro Self Insured	
\$30M	ALL RISK INCLUDING FLOOD & EQ	\$20M x 5 \$10M
\$10M		\$10M

ATTACHMENT C

Current Program Structure

Los Angeles County Metropolitan Transportation Authority							
Primary/Excess Property - Attachment C							
Policy Term: May 10, 2003 to May 10, 2004							
Excess Limit	Layer(s)	LOB per Layer	Policy Limit	Part of ...	Carrier	Policy	Premium
\$300M	ALL RISK EXCLUDING FLOOD & EQ. \$215M xs \$85M	8 of 8	\$ 19,000,000	\$215M xs \$85M	Scor	25F39000139-03	\$ 45,079.03
		7 of 8	\$ 21,500,000	\$215M xs \$85M	Commonwealth Ins. Co.	US4463	\$ 50,995.31
		6 of 8	\$ 25,000,000	\$215M xs \$85M	Arch	72PRP1526300	\$ 59,296.88
		5 of 8	\$ 25,000,000	\$215M xs \$85M	CNA	RMP247912220	\$ 58,650.00
		4 of 8	\$ 25,000,000	\$215M xs \$85M	Hartford	GX0001635	\$ 59,296.88
		3 of 8	\$ 26,500,000	\$215M xs \$85M	Montpelier	MAN2X67112	\$ 62,844.38
		2 of 8	\$ 30,000,000	\$215M xs \$85M	Lexington	8752180	\$ 71,153.16
		1 of 8	\$ 43,000,000	\$215M xs \$85M	London (Lloyd's)	WB0301437/ WB0301446	\$ 101,990.63
\$85M	\$20M xs \$66M	3 of 3	\$ 2,000,000	\$20M xs \$65M	Scor	25F39000139-03	\$ 20,625.00
		2 of 3	\$ 7,500,000	\$20M xs \$65M	Hartford	GX0001634	\$ 77,343.75
		1 of 3	\$ 10,500,000	\$20M xs \$65M	Lexington	8752179	\$ 108,281.25
\$65M	\$35M xs \$30M		\$ 35,000,000	<u>MTA SELF INSURED RETENTION</u>			
\$30M	ALL RISK INCLUDING FLOOD & EQ. \$5M xs \$25M	4 of 4	\$ 1,000,000	\$5M xs \$25M	Scor	25F39000139-03	\$ 82,500.00
		3 of 4	\$ 1,000,000	\$5M xs \$25M	Commonwealth Ins. Co.	US4457	\$ 82,500.00
		2 of 4	\$ 1,500,000	\$5M xs \$25M	ACE	D35876297	\$ 123,750.00
		1 of 4	\$ 1,500,000	\$5M xs \$25M	Hartford	GX0001633	\$ 123,750.00
\$25M	\$25M	1	\$ 25,000,000	PRIMARY	Lexington Ins. Co	8752178	\$ 4,331,250.00
						Total	\$ 5,459,306.25
						B&M	\$ 102,000.00
						Total inc. B&M	\$ 5,561,306.25

