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REVISED
CONSTRUCTION COMMITTEE
OCTOBER 16, 2002

Metropolitan
Transportation
Authority

One Gateway Plaza
Los Angeles, CA
90012-2952

SUBJECT: CONSTRUCTION INSURANCE BROKERAGE SERVICES

**ACTION: AWARD A CONTRACT TO AON RISK SERVICES,
INCORPORATED FOR CONSTRUCTION INSURANCE
BROKERAGE SERVICES**

RECOMMENDATION

Authorize the Chief Executive Officer to award a five-year firm fixed price contract, Contract No. PS-0532-1235, to Aon Risk Services, Incorporated for ~~Construction Insurance Brokerage Services in an amount not to exceed \$1,079,819 effective November 1, 2002:~~

- A. Phase 1 of the Construction Insurance Brokerage services administering marketing services in an amount of \$65,255 effective November 1, 2002; and
- B. Contingent on the successful completion of Phase 1, authorize the Chief Executive Officer to exercise the option for Construction Insurance Implementation and Program Administration (Phase 2) in an amount not to exceed \$1,014,594.

For a total contract value in the amount not to exceed \$1,079,819.

RATIONALE

The MTA will be constructing several major transportation corridor projects in the greater Los Angeles area. The corridor projects include but are not limited to:

- A new light rail system from Union Station (Downtown Los Angeles) to East Los Angeles
- A light rail system that will partially utilize an existing right-of-way, from Downtown Los Angeles to Culver City
- Two dedicated bus rapid transit corridors; one in the San Fernando Valley and one in the Mid-City/Wilshire area

In order to provide a comprehensive insurance program that will provide desired coverages and coverage limits the MTA is considering two options. One option is to implement a Rolling Wrap-Up Insurance program for the transit projects. The Wrap-Up is similar to an Owner Controlled Insurance Program in that the MTA will purchase insurance and provide coverage for the contractors. The second alternative

is to require the contractors to purchase the insurance themselves and include the cost in their billings. In order to compare these two alternatives, the MTA is procuring has procured the services of a qualified insurance broker/administrator to implement market a Rolling Wrap-Up Insurance Program for these transit construction project(s) with an option to implement the program if that alternative is selected.

The contract will consist of Phase 1, Brokerage of Insurance Coverages administering marketing services and Phase 2, Implementation and Program Administration of the Rolling Wrap-Up Insurance Program. The contract is divided into two phases due to challenges posed by the MTA loss experience on Segments II and III (Metro Red Line), and by insurance market conditions.

MTA loss experience on Segments II, III

The MTA insured construction activity for Segments II and III (Metro Red Line) through an Owner Controlled Insurance Program (OCIP). In the course of construction, the MTA suffered various large-magnitude losses such as the Hollywood Blvd. subsidence loss, which placed the MTA's loss experience over and above the expected frequency and severity of losses associated with a construction project of this magnitude. In addition, litigation that resulted from a dispute with the MTA's principal insurer over the terms of the master policies for Workers' Compensation and General Liability remains unresolved.

~~The large magnitude losses and the unresolved litigation thus create a challenge in marketing and securing insurance for a new MTA construction insurance program. Bifurcating the contract allows the selected broker to market the new program to insurance carriers and determine what insurance is available at what cost. Upon review of availability, price and other terms of the insurance products, the selected broker will advise MTA as to whether or not it can secure coverage and execute a new program according to specifications~~

Phase 1 – Marketing

~~The large-magnitude losses and the unresolved litigation thus create a challenge in marketing and securing insurance for a new MTA construction insurance program. Bifurcating the contract allows the selected broker to market the new program to insurance carriers and determine what insurance is available at what cost. Upon review of availability, price and other terms of the insurance products, the selected broker will advise MTA as to whether or not it can secure coverage and execute a new program according to specifications.~~

Because of the challenges described above, the MTA has incorporated into solicitation documents for the corridor projects insurance specifications that require the interested parties to submit proposals with and without the cost of insurance. If the Phase 1 marketing effort is successful and insurance is available, the MTA can compare the cost and features of its insurance program against that of the insurance estimates provided by the bidders. The MTA may elect to go forward with its own insurance program (Phase 2), or with the selected contractor's insurance program.

Conversely, if no insurers are interested in providing insurance to the MTA, Phase 1 ends, the contract ends, and the MTA does not incur charges for program administration fees proposed in

Phase 2 that would then be unnecessary. The total cost of marketing the program, Phase 1, is \$65,225.

Phase 2 –Implementation and Program Administration

Insurance market conditions

In the past 18 months, both the price and availability of commercial insurance have changed unfavorably. Prior to the 9/11/2001 attacks, insurers began feeling the effects of declining stock performance on their earnings. With the sharp drop-off of institutional investment income, insurers began compensating by increasing premiums and more carefully selecting risks. The attacks of 2001 aggravated the situation by severely impacting global insurance capacity at the highest levels of coverage.

Thus, past claim performance notwithstanding, the MTA's broker faces the difficult task of requesting high levels of coverage in a marketplace with restricted capacity and sharply increased premiums. It is possible that some insurer or insurers will offer coverage for the MTA, but at a cost that exceeds having each contractor on the various transit corridor projects procure its own insurance coverages.

If conditions of availability, price and other terms of the insurance products are feasible and MTA elects to go forward with a Rolling Wrap-Up Insurance Program, the selected broker will continue on to Phase 2, the implementation and administration of the Rolling Wrap-Up Insurance Program. This phase, which includes the majority of the cost and scope of work of the contract, includes Insurance Program Administration (securing policies, enrolling eligible contractors); Risk Management and Claims Support Services (intake, investigation and settlement of all construction-related claims, safety/loss control services); Risk Management Information Systems (claim detail reports, actuarial cost projections) and Management Reports (required statutory reporting, safety statistics). In contrast to Phase 1, where three principals will conduct insurance program marketing over a sixty-day period, Phase 2 will retain the three principals and add the services of various technical staff, for a total of 16 project members, over the five-year life of the contract. The total cost of implementing and administering the program, Phase 2, is \$1,014,594.

FINANCIAL IMPACT

The funding of \$400,000 for this service is included in the FY03 cost center 0532, Non-Departmental Risk Management Construction, projects 800088, East Side LRT, 800111 Mid-City BRT and 800112, San Fernando Valley BRT. Since this is a multi-year contract, the cost center manager and Executive Officer will be accountable for budgeting the cost in future years, including any option exercised.

ALTERNATIVES CONSIDERED

Consideration was given to having each prime contractor for the various projects procure its own insurance. A single insurance program, or wrap-up, however, offers administrative and financial advantages over having separate insurance for each contractor and/or project.

On an administrative basis, because of the scale of these projects, which involve MTA as the principal, one prime and many subcontractors, problems with gaps or overlaps in coverage occur, as well as cross-claims between different contractors on the same job. Creating a single insurance program allows the MTA to select and implement appropriate coverages with no overlap or gaps, and eliminates cross-claims between program participants. MTA's control of the insurance program also assures that all insurance requirements set forth by the Federal Transit Administration and other entities will be met.

The MTA utilized an owner-controlled insurance program for construction of Metro Red Line Segments II and III. Although the prior insurance program was successful in addressing most of the above-referenced administrative and insurance issues, two areas of significant concern arose: problems arising from the involvement of multiple brokers and an uncoordinated safety program. Multiple brokers were involved at different stages of the prior program, making it difficult to gather consolidated claims and cost data. In addition, there was no centralized oversight or defined team member roles for the safety program. This led to inconsistent safety practices, and to overlapping of MTA, insurance carrier and broker safety staff resources.

In contrast, the procurement for this contract addressed all prior concerns, and led to the contract being awarded to the world's 2nd largest insurance broker, whose resources and financial stability should assure that the MTA receives all agreed-upon services over the life of the contract. The safety component of the new program was drafted with input from MTA Construction Safety staff, and will provide centralized oversight of all construction safety activity, with defined team member roles and no overlapping of duties or superfluous personnel.

On a financial basis, having each contractor procure its own separate policies with relatively low limits creates an inefficiency in procuring the insurance, as well as not being able to take advantage of consolidated purchasing power. ~~By centralizing the program under MTA's direction, and purchasing a single set of comprehensive, high-limit policies, substantial premium savings can be~~ Centralizing the program under MTA's direction, and purchasing a single set of comprehensive, high-limit policies can achieve substantial premium savings achieved over the life of each project.

ATTACHMENT(S)

A. Procurement Summary

Prepared by: Leo Costantino, Risk Financing Manager



Michael A. Koss
Executive Officer
Risk Management & Safety



Roger Snoble
Chief Executive Officer

**BOARD REPORT ATTACHMENT A
PROCUREMENT SUMMARY**

CONSTRUCTION INSURANCE BROKERAGE SERVICES

1.	Contract Number: PS-0532-1235		
2.	Recommended Vendor: Aon Risk Services, Incorporated		
3.	Cost/Price Analysis Information:		
	A. Bid/Proposed Price: \$1,079,819	Recommended Price: \$1,079,819	
	B. Details of Significant Variances: None, see Attachment A-1D		
4.	Contract Type: Firm Fixed Price		
5.	Procurement Dates:		
	A. Issued: June 6, 2002		
	B. Advertised: June 13, 2002		
	C. Pre-proposal Conference: June 24, 2002		
	D. Proposals Due: July 12, 2002		
	E. Pre-Qualification Completed: July 12, 2002		
	F. Conflict of Interest Form Submitted to Ethics: August 20, 2002		
6.	Small Business Participation:		
	A. Bid/Proposal Goal: 29% DBE commitment	Date Small Business Evaluation Completed: August 19, 2002	
	B. Small Business Commitment: 29.55% DBE Goal Details are in Attachment A-2		
7.	Invitation for Bid/Request for Proposal Data:		
	Notifications Sent: 43	Bids/Proposals Picked up: 12	Bids/Proposals Received: 3
8.	Evaluation Information:		
	A. Bidders/Proposers Names: Aon Risk Services, Incorporated Marsh Risk & Insurance Services Willis Risk & Insurance Services	<u>Bid/Proposal Amount:</u> \$1,079,819 \$1,496,260 \$1,292,480	<u>Best and Final Offer Amount:</u> Not Applicable
	B. Evaluation Methodology: Weighted Guidelines, Details are in Attachment A-1.C		
9.	Protest Information:		
	A. Protest Period End Date: October 22, 2002		
	B. Protest Receipt Date: TBD		
	C. Disposition of Protest Date: TBD		
10.	Contract Administrator: Marjorie Morris-Threats	Telephone Number: (213) 922-1102	
11.	Project Manager: Leo Costantino	Telephone Number: (213) 922-4620	

**BOARD REPORT ATTACHMENT A1
PROCUREMENT SUMMARY**

CONSTRUCTION INSURANCE BROKERAGE SERVICES

A. Background on Contractor

Aon Risk Services, Incorporated, is located in Los Angeles, California. Aon was formed in 1982 through the merger of Ryan Insurance Group and Combined International Corporation. Aon designs, markets and implements owner controlled insurance programs (OCIP) for the past eight years. Aon provides risk management insurance services and consulting solutions for commercial and industrial enterprises, financial institutions, insurance organizations, municipalities and individuals. Aon is currently involved in a Wrap-Up Program with New York City MTA and is the current operations insurance broker for Los Angeles County MTA. They have provided satisfactory performance on the LACMTA contract.

Aon currently does business with the following transit 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 is a competitive negotiated procurement for an insurance broker using the explicit factors evaluation methodology.

The Department of Diversity and Economic Opportunity (DEOD) recommended a 29% Disadvantaged Business Enterprise (DBE) goal for this procurement.

C. Evaluation of Proposals

In accordance with MTA Procurement Policies and Procedures, the Source Selection Committee (SSC) conducted a comprehensive technical evaluation of the proposals and using the explicit factors identified in the Request for Proposal. The SSC ranked the proposers based on technical criteria and price. All proposers met the minimum qualifications and Aon received the highest scoring based on price and technical factors.

D. Cost/Price Analysis Explanation

The recommended price of \$1,079,819 has been determined to be fair and reasonable based upon adequate price competition.

**BOARD REPORT ATTACHMENT A-2
PROCUREMENT SUMMARY
LIST OF PRIME CONTRACTORS AND SUBCONTRACTORS
FOR RESPONSIVE AND RESPONSIBLE PROPOSERS**

CONSTRUCTION INSURANCE BROKERAGE SERVICES

PRIME CONTRACTOR – Aon Risk Services, Inc.

<u>Small Business Commitment</u>		<u>Other Subcontractors</u>
Cumbre, Incorporated	29.55	none
Total Commitment	29.55%	