

**SOUND TRANSIT
STAFF REPORT**

MOTION NO. M2002-88

Contract for Insurance Brokerage Services with Willis of Seattle, Inc.

Meeting:	Date:	Type of Action:	Staff Contact:	Phone:
Finance Committee	7/18/02	Discussion/Possible Action	Michael Bailey, Risk Manager	(206) 398-5096

Contract/Agreement Type:	3	Requested Action:	3
Competitive Procurement	3	Execute New Contract/Agreement	3
Sole Source		Amend Existing Contract/Agreement	
Memorandum of Agreement		Contingency Funds Required	
Purchase/Sale Agreement		Budget Amendment Required	

4 Applicable to proposed transaction.

OBJECTIVE OF ACTION

To obtain insurance brokerage services for Sound Transit.

ACTION

Authorize the Executive Director to execute a contract with Willis of Seattle, Inc. to provide Insurance Brokerage Services in the amount of \$200,000 a year for three years for a total authorized contract amount not to exceed \$600,000, plus merit bonuses tied to premium cost savings, and with options for two additional one-year terms exercised at Sound Transit's sole discretion upon authorization of the Finance Committee.

- Three year contract with two one-year optional extensions.

KEY FEATURES

- **Merit Bonus** - During the three year term and/or in each of the two optional one-year renewal periods, should Willis reduce Sound Transit's annual insurance premium costs without sacrificing the quality or limits of insurance coverage, Willis could earn, in addition to the fixed annual fee, a merit bonus based upon a percentage of the premium cost savings to Sound Transit. The merit bonus percentage will be calculated based upon 25% of the premium cost savings to Sound Transit for individual insurance policy renewals that generate \$50,000 or more of annual premium;
- **Risk Assessment** - Monitor and advise Sound Transit concerning current property and liability exposures to loss within each operating Line Of Business including Agency operations;

- **Risk Control** - Provide property and liability loss prevention and safety consulting services as respects Sound Transit operations, assets and human element exposure injury and/or loss;
- **Risk Financing** - Advise Sound Transit concerning best practices for financing property and liability exposures to loss via contractual transfer, purchase of commercial insurance, self-funding or a combination of these techniques;
- **Marketing** - Annual marketing and premium quotes for insurance policy renewal of Sound Transit's operating property and liability commercial insurance portfolio;
- **Loss Management** - Consult with Sound Transit regarding best practices for property and liability claims administration and consult with Sound Transit insurers on disputed property and liability claim losses;
- **Annual Report** - Provide an annual report summarizing insurance policies, premium costs and claims experience, trending, development and estimates of future costs to Sound Transit for its entire operating insurance program; and
- **Availability on an as-needed basis** - Willis must make itself and staff available to Sound Transit on an as-needed basis and not restrict its services to a pre-determined weekly or monthly timeframe basis.

BUDGET IMPACT SUMMARY

Project Description: Insurance Brokerage Services

Current Status: Current Contract Expires 9/30/02

Projected Completion Date: N/A

Action Outside of Adopted Budget:	Y/N	Y Requires Comment
This Line of Business	N	
This Project	N	
This Phase	N	
This Task	N	
Budget amendment required	N	
Key Financial Indicators:	Y/N	Y Requires Comment
Contingency funds required	N	
Subarea impacts	N	
Funding required from other parties other than what is already assumed in financial plan	N	

N = Action is assumed in current Board-adopted budget. Requires no budget action or adjustment to financial plan

BUDGET DISCUSSION

The proposed action of replacing insurance brokerage vendors would result in cost savings of \$150,000 in 2002. The 2002 Board adopted budget in Risk Management included \$350,000 for insurance brokerage services. The cost for insurance brokerage services in 2002 under the proposed action would be \$200,000. Committing these funds does not endanger any other project elements that are to be funded out of the Risk Management budget.

REVENUE, SUBAREA, AND FINANCIAL PLAN IMPACTS

The proposed action is consistent with the current Board adopted budget and is affordable within the agency's current long-term financial plan and the agency financial capacity.

SUMMARY FOR BOARD ACTION

Summary for Board Action (Year of Expenditure \$000)

Action Item: Contract with Willis for Insurance Brokerage Services

	(A)	(B)	(C)	(D)
	Current Approved Contract Value	Spent to Date	Proposed Action	Proposed Total Contract Value
1 Contract Budget				
1 Willis	0	-	600,000	600,000
2 Contingency	0	-	-	-
3 Total	0	-	600,000	600,000
4 Percent Contingency	0%	-	0%	0%

Contract to be Charged to:

	2002 Staff Budget	Future Staff Budgets	Direct Charges to Projects	Total
5 Other Services	200,000	400,000	-	600,000

	2002 Board Adopted Staff Budget	Spent to Date in 2002	This Action for 2002	2002 Suplus (Shortfall)
6 Finance Department, Account Budget				
6 Other Services	67,500		-	67,500
7 Brokerage Services	350,000		200,000	150,000
8 Total Other Serices	417,500	-	200,000	217,500

Budget Shortfall

	Level	\$	Revenues	Funding Source
9	NA	-	-	NA

M/W/DBE – SMALL BUSINESS PARTICIPATION

For this procurement, proposers were not required to submit a plan for M/W/DBE or small business participation because joint venture or subcontracting opportunities was infeasible or improbable. Willis has identified three small businesses that it will involve on its team as subcontractors for on-call, as-needed services: Diversified Insurance, (small business) to assist on Native American Tribal issues; Ogishima & Associates (MBE), to assist on Notary Bonds; and Classic Claims Service (M/DBE) to provide claims adjusting services.

HISTORY OF PROJECT

In September 1997, the Executive and Finance Committees, by Motion No. 41, authorized the executive director to execute a contract with J & H Marsh & McLennan for the provision of property and casualty comprehensive insurance brokerage services for \$565,000. In March 1998, the original contract increased by \$40,000 for the addition of Surety Insurance. In September 2000, the original contract was amended by increasing the contract amount by \$630,000 to include additional scope of work for the development, placement, and oversight of an Owner Controlled Insurance Program (OCIP) for all Sound Transit construction projects and to extend the contract to September 30, 2001. Please note, Marsh USA, Inc. will continue to service the OCIP portion of Sound Transit's account through September 2006. In September 2001, the final one- year extension option was authorized and extended the contract to September 30, 2002.

Willis of Seattle, Inc. (Willis) will represent Sound Transit to the world insurance market with the objective of achieving insurance placement opportunities regarded by Sound Transit as optimal in cost, coverage, and continuity. Willis will not be bound to utilize a particular insurance company. Willis will inform Sound Transit of any special circumstances whereby Willis has authority to bind coverage on behalf of an insurance carrier. Otherwise, Willis does not have, nor will it seek, authority to make such binding commitments with respect to policies or endorsements. Willis will negotiate on behalf of Sound Transit with insurance carriers and inform Sound Transit of significant developments in those negotiations, which are likely to have a bearing on Sound Transit's insurance program. Willis will use its best judgement in the use of intermediaries to assist in the marketing of Sound Transit's insurance needs. It is understood that such intermediaries may be affiliates of Willis' or other intermediaries not related to Willis.

**Prior Board or Committee Actions
and Relevant Board Policies**

Motion or Resolution Number	Summary of Action	Date of Action
Motion No. M2001-102	Authorizing the Executive Director to execute a contract amendment to Contract No. RTA/FA 14-97 with Marsh USA, Inc. to provide insurance brokerage services until September 30, 2002.	10/01
Motion No. M2000-59	Authorizing the Executive Director to execute a contract amendment to Contract No. RTA/FA 14-97 with Marsh USA, Inc. to provide insurance brokerage services until September 30, 2001. Also, increased scope of work to include development, placement, and oversight of an Owners Controlled Insurance Program (OCIP).	09/00
Motion No. 41	Authorizing the Executive Director to enter into an agreement with J&H Marsh & McLennan for the provision of property & casualty comprehensive insurance brokerage services.	09/97

CONSEQUENCES OF DELAY

The current Insurance Brokerage Services contract with Marsh USA, Inc. expires September 30, 2001. Sound Transit would not have the ability to market and renew its insurance portfolio from year to year.

REGIONAL PARTNERSHIP AND COOPERATION

N/A

PUBLIC INVOLVEMENT

N/A

LEGAL REVIEW

JDW 07/09/02

SOUND TRANSIT

MOTION NO. M2002-88

A motion of the Finance Committee of the Central Puget Sound Regional Transit Authority to authorize the Executive Director to execute a contract with Willis of Seattle, Inc., to provide Insurance Brokerage Services in the amount of \$200,000 a year for three years for a total authorized contract amount not to exceed \$600,000, plus merit bonuses tied to premium cost savings, and with options for two additional one-year terms exercised at Sound Transit's sole discretion upon authorization of the Finance Committee.

Background:

Willis of Seattle, Inc. (Willis) will represent Sound Transit to the world insurance market with the objective of achieving insurance placement opportunities regarded by Sound Transit as optimal in cost, coverage, and continuity. Willis will not be bound to utilize a particular insurance company. Willis will inform Sound Transit of any special circumstances whereby Willis has authority to bind coverage on behalf of an insurance carrier. Otherwise, Willis does not have, nor will it seek, authority to make such binding commitments with respect to policies or endorsements. Willis will negotiate on behalf of Sound Transit with insurance carriers and inform Sound Transit of significant developments in those negotiations, which are likely to have a bearing on Sound Transit's insurance program. Willis will use its best judgement in the use of intermediaries to assist in the marketing of Sound Transit's insurance needs. It is understood that such intermediaries may be affiliates of Willis' or other intermediaries not related to Willis.

Motion:

It is hereby moved by the Finance Committee of the Central Puget Sound Regional Transit Authority that the Executive Director is authorized to execute a contract with Willis of Seattle, Inc. to provide insurance brokerage services until September 30, 2005, in the amount of \$200,000 a year for three years for a total authorized amount not to exceed \$600,000, plus merit bonuses tied to premium cost savings, and with options for two additional one-year terms exercised at Sound Transit's sole discretion upon authorization of the Finance Committee.

APPROVED by the Finance Committee of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on July 18, 2002.



Kevin Phelps
Finance Committee Chair

ATTEST:



Marcia Walker
Board Administrator