

# Agenda Report

January 14, 2013

**TO:** Honorable Mayor and City Council

**THROUGH:** Finance Committee

**FROM:** Director of Finance

**SUBJECT: AUTHORIZATION TO ENTER INTO CONTRACT(S) WITH DESIGNATED INSURANCE BROKER OF RECORD FOR PROPERTY AND CASUALTY INSURANCE COVERAGE FOR THE CITY**

## **RECOMMENDATION:**

It is recommended that the City Council:

1. Authorize the City Manager to enter into an agreement with Arthur J. Gallagher and Company to provide professional services as Insurance Broker of Record for property and casualty insurance on behalf of the City of Pasadena, for a period of three years, in the amount of \$75,000 per year, with provision for the City's option for two additional one-year period extensions, in the amount of \$80,000 per one-year extension (total amount not to exceed \$385,000 for five years); and,
2. Find that the proposed contracts are exempt from the competitive bidding process pursuant to the City Charter Section 1002 (f), contracts for professional or unique services; and/or,
3. Grant and exemption from competitive selection process of the Competitive Bidding and Purchasing Ordinance, Pasadena Municipal code Chapter 4.08, pursuant to Section 4.08.049(B) contracts which the City's best interests are served.

## **BACKGROUND:**

The City of Pasadena purchases property and casualty insurance to protect against catastrophic loss and to comply with various bond agreements regarding protection of collateral. The City's insurance broker assists the City with access to insurance markets, manages an insurance program for a first class, destination city, with approximately \$1.9 million in insurance premiums, maintains property insurance with insurable values in excess of \$1 billion dollars, and provides the City with liability protection with limits of \$25 million per occurrence.

The City has been served by Alliant Insurance Services for many years; however, over the past several years, the City has incurred major losses including two gas turbine engines at the power plant. After the first loss at the power plant, the City was able to secure insurance for the power plant equipment at a very high cost and with very limited or capitated coverage. As a result, it was determined that the City should conduct a Request for Proposal (RFP) to seek other alternatives.

The City conducted an RFP for Insurance Broker of Record opening the RFP in November 2012 and closing the RFP in December 2012. In the RFP the City requested fixed-fee proposals, identification of non-proprietary coverage's, and required the responder to provide references and contacts for all clients not renewing within the last ten years. The City received five responses. The table below summarizes the responders and their proposed annual cost.

Company Name:	Cost/Year (Years 1-3)	Cost/Year (Years 4-5)	Total Cost:
Alliant	\$55,000/\$56,000/ \$57,750	\$60,000/ \$60,000	\$288,750
Aon	\$145,000	\$145,000	\$725,000
Ins. Office of America	10% cap. rate	10% cap. rate	Varies
Gallagher	\$75,000/yr.	\$80,000/yr.	\$385,000
Tyler	\$50,000/yr.	\$50,000/yr.	\$250,000

Alliant's cost is predicated on continuing to provide the same program with the same coverage. They have indicated they will assign a new account servicing team to the City from Alliant's San Francisco office. They have proposed that any additional programs or program changes will be subject to their standard commission rates. Alliant did not provide any indication as to what those rates would be or how they are computed. Thus, there is no clear answer as to what the total final cost for brokerage services may be, especially in light of the fact that the City needs to look beyond the Alliant programs for property and casualty insurance coverage.

Aon explicitly states that, in addition to the City's cost, they will continue to accrue and earn retail commissions, including but not limited to, contingencies, overrides, bonus commissions, national additional commissions, subscription market brokerage charges, and referral fees and/or administrative expense reimbursements which will be revenue in addition to and not credited to the City's fee. Aon offers program services as part of the broker proposal. Aon will service the City's account from their Los Angeles office.

Insurance Office of America (IOA), located in Aliso Viejo, offers a capitated rate of 10 percent of total premium. While the capitated rate structure sounds appealing, the lower the insurance premium costs, the lower the fee; similarly, the higher the insurance premiums, the higher the fee. At this juncture, the City can only estimate costs based on prior year insurance premiums. For example, in FY 2013 the City paid approximately \$1.9 million in insurance premiums. Thus the 10 percent capitated rate for IOA would have been \$190,000.

Gallagher provided a straight forward cost indication, as indicated in the table, and has included program services as part of the fixed-cost fee. Gallagher will service the account from both the Orange County and San Francisco offices. Gallagher's proposal indicates they will provide the City with loss control and inspection services for City operations and properties as a means to lower future claims costs and reduce current premiums. They will provide the City with professional services to review self-insured retentions to maximize premium reductions and cash-flow requirements; assist the City in developing a premium/cost allocation model; assist with earthquake coverage assessments, including maximum foreseeable loss/probable maximum loss study. Staff research revealed that Gallagher has been instrumental in obtaining cost efficient and timely insurance proposals for their public sector clients. Gallagher has experience creating and marketing new purchase programs for public sector clients and recently marketed an excess liability program to 28 insurance carriers, obtaining a 27 percent reduction in premiums with enhanced features including a two-year rate stabilization feature, and satisfaction of the underlying self-insured retention (SIR) by vendors/contractors limits of liability. Gallagher marketed the property/earthquake coverage for a medium sized pooling authority and was able to reduce the renewal from a 10 percent increase to a 1 percent increase and obtained significant enhancements for the property program including mold coverage.

Tyler, located in El Centro, California, provided a rate quotation based upon existing insurance policy programs. Tyler explicitly stated that for new programs, or policies, they would earn a 5 percent commission during the first year of placement which is subject to an additional cost increase to the City in subsequent years for this service. Tyler has specialty services providing coverage for power plants. Tyler is a good option for coverage of the power plant if the City desires to keep the total property program separate from the power plant property; however, it may be more efficient and cost effective to keep the City's property program as a whole understanding that based upon market conditions, the City may require Tyler services for placing coverage of the power plant separately. The total cost proposal submitted by Tyler was based upon the City's current program; however, the City desires to change the current program for cost efficiencies and Tyler's overall proposal states they will charge 5 percent for any new program or policies beyond the current fixed fee. In FY 2013, the City paid approximately \$1.9 million in insurance premiums. Based upon Tyler's proposal, the 5 percent rate for Tyler would have been \$95,000 which is in excess of the other rates submitted by other proposals. Further, Tyler does not indicate a rate for future years.

As part of the RFP process, each responder was required to provide current references and a list of clients who have not renewed the broker's services within the past ten-years. City staff contacted several references for each broker. All current-client references spoke highly of their incumbent broker. In fact, several municipalities that were contacted utilized two or three of the proposing brokers concurrently and spoke highly of each broker.

Clients that were contacted who did not renew indicated they felt that the prior broker was trying to fit them into an existing proprietary program. In some instances, the former client felt dissatisfied with marketing by the prior broker and the former clients stated they were never invited to meet with underwriters in an effort to secure coverage

for their respective agencies. Two former clients expressed concern that premiums would go up but limits and values did not increase and each of these clients indicated they were not adding additional properties to their portfolios.

The table below summarizes the ranking of each bidder/proposer based upon the evaluation criteria consisting of: 1) Overall experience of proposer, including use of open market non-proprietary programs; 2) Providing underwriting data and information, and pricing methodology for the City's account; 3) Methodology and time frame for completion of the City's insurance marketing; 4) Reference checks of current and prior clients; 5) Overall quality and responsiveness to the City's RFP.

<u>Company</u>	<u>Score</u>
Gallagher	72.4
Aon	57.65
Tyler	54.65
Alliant	51.85
IOA	50.95

**COUNCIL POLICY CONSIDERATION:**

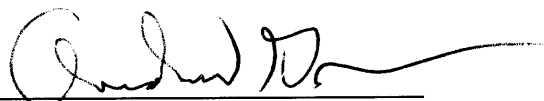
This action supports the City Council's strategic goal to maintain fiscal responsibility and stability, and to protect the City's infrastructure and collateral for bond purposes.

**FISCAL IMPACT:**

Funding for this action will be included in the Fiscal Year 2013 budget and all subsequent budgets and allocated to City departments through the budget process. In accordance with the table provided, the cost of this action is approximately \$385,000 for five years, for brokerage services, account number: 1311-504-000000. No indirect and support costs such as maintenance or IT support are anticipated.

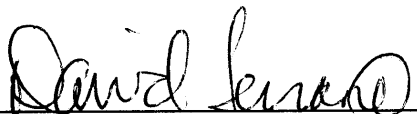
All recommendations for insurance coverage and premium indications will be included in the City's overall budget and will be submitted to City Council for approval, and are not included in this item.

Respectfully submitted,



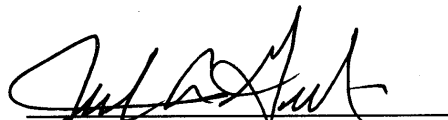
ANDREW GREEN  
Director of Finance  
Department of Finance

Prepared by:



David Serrano  
Claims Coordinator  
Department of Finance

Approved by:



For MICHAEL J. BECK  
City Manager

Attachments: (1)

Attachment A – Taxpayer Protection Amendment

Attachment A

Disclosure Pursuant to the  
City of Pasadena Taxpayer Protection Amendment of 2000  
Pasadena City Charter, Article XVII

Contractor/Organization hereby discloses its trustees, directors, partners, officers, and those with more than a 10% equity, participation, or revenue interest in Contractor/Organization, as follows:  
*(If printing, please print legibly. Use additional sheets as necessary.)*

1. Contractor/Organization Name:

Arthur J. Gallagher & Co. Insurance Brokers of California, Inc.

2. Name(s) of trustees, directors, partners, officers of Contractor/Organization:

See attached list

3. Names of those with more than a 10% equity, participation or revenue interest in Contractor/Organization:

Arthur J. Gallagher Brokerage & Risk Management Services, LLC is owner of the corporation - 100%

Prepared by: Douglas B. Bowring

Title: President

Date: 11-26-12

For office use only: Contract/Transaction No. _____
If not a contract, type of transaction: _____

75969.1

**ARTHUR J. GALLAGHER & CO. INSURANCE BROKERS OF CALIFORNIA, INC.**  
**A California corporation**

**Management Structure – Officers and Directors**

Management Name	Title	Title Role
Gault, James S.	Director	Director
Wennerstrum, Steven C.	Director	Director
Anacker, Matthew D.	Area Executive Vice President	Officer
Avery, William G.	Area President	Officer
Baer, Coreina A.	Area Senior Vice President	Officer
Bailey, Lynn D.	Area President	Officer
Bane, Martha W.	Area Senior Vice President	Officer
Barton, M. Keith	Vice President and Chief Financial Officer	Officer
Berriatua, James	Area Senior Vice President	Officer
Bowring, Douglas B.	Area President	Officer
Campana Smith, Dina C.	Managing Director	Officer
Campbell, Terry A.	Managing Director	Officer
Cary, Richard C.	Controller	Officer
Chapman, Greg	Area President	Officer
Chino, John G.	Area Senior Vice President	Officer
Cook, Francis E. Sr.	Area Senior Vice President	Officer
Cookman, John E. Jr.	Area Executive Vice President	Officer
Coyne, Lisa A.	Assistant Vice President of Tax	Officer
Daley, Susan A.	Area Chief Operating Officer	Officer
Dove, Joan M.	Area Executive Vice President	Officer
Dowling, Konrad	Managing Director	Officer
Even, Perry F.	Area Senior Vice President	Officer
Fasig, Carl E.	Vice President	Officer
Firestone, Scott J.	Area President	Officer
Freeland, Deborah L.	Area Senior Vice President	Officer
Genovese, John R.	Area Chairman	Officer
Ghysels-Borowski, Catherine G.	Area Executive Vice President	Officer
Glickman, Alexandra S.	Area Vice Chairman	Officer
Goldberg, Patricia D.	Area Executive Vice President	Officer



Griffith-Bourke, Shirley D.	Managing Director	Officer
Hanes-Dowd, April	Secretary	Officer
Hanner, Jerome S.	Vice President	Officer
Harris, Theresa Balasz	Area Senior Vice President	Officer
Hawley, Cynthia A.	Area Senior Vice President	Officer
Hecker, Susan T.	Area Executive Vice President	Officer
Henderson, Jerry F.	Area Executive Vice President	Officer
Hill, Kristine C.	Area Senior Vice President	Officer
Inge, Joseph B.	Area Senior Vice President	Officer
Josephson, Andrew	Managing Director	Officer
Kallal, Anthony V.	Area Senior Vice President	Officer
Kikalo, Ronald P.	Area Senior Vice President	Officer
King, Maria W.	Area Executive Vice President	Officer
Kingman, Brian M.	Managing Director	Officer
Kornreich, Joel C.	Vice President	Officer
Lang, Christopher	Area Executive Vice President	Officer
Lazzaro, Jack H.	Treasurer	Officer
Lee, Sue A.	Area Executive Vice President	Officer
Machette, Michael H.	Area President	Officer
McFarlane, James G.	Chairman	Officer
McNamara, Daniel J.	Area Chairman	Officer
Meyer, Warren J.	Area Senior Vice President	Officer
O'connell, Maureen	Area Senior Vice President	Officer
O'Hara, Dennis H.	Area Executive Vice President	Officer
Olsen, Dennis G.	Area Senior Vice President	Officer
Pagliai, James D.	Regional Chief Financial Officer	Officer
Patelson, Susan J.	Area Senior Vice President	Officer
Perez, Mercedes Y.	Area Senior Vice President	Officer
Phillips, Dale L.	Area Executive Vice President	Officer
Pierce, Linda	Area Executive Vice President	Officer
Pinter, Diane M.	Managing Director	Officer





Radist, Mitchell J.	Area Senior Vice President	Officer
Reno, Calvin C.	Managing Director	Officer
Roach, Robert L.	Area Senior Vice President	Officer
Russell, Deborah S.	Area Senior Vice President	Officer
Ruvolo, Susan L.	Area Senior Vice President	Officer
Salisbury, James B.	Area President	Officer
Scales, Jeffrey M.	Area Executive Vice President	Officer
Selna, Brian C.	Area Executive Vice President	Officer
Smith, Mark D.	Area Senior Vice President	Officer
Snow, Theresa A.	Assistant Vice President	Officer
Speno, Ronald G.	Area President	Officer
Sterling, Marie	Area Senior Vice President	Officer
Stone, Charlotte M.	Area Executive Vice President	Officer
Stuckey, S. Corissa	Area Senior Vice President	Officer
Tarantino, Donald P.	Area Chairman	Officer
Tarantino, Salvatore P.	Area Chairman	Officer
Tastor, John E.	Area Executive Vice President	Officer
Thom, Robert W.	Area Senior Vice President	Officer
To-Tu, Lynn M.	Area President	Officer
Vortriede, Kathleen A.	Director - Business Process	Officer
Wacker, John C.	Area Senior Vice President	Officer
Wasikowski, Paul F.	Vice President of Tax	Officer
Wennerstrum, Steven C.	Vice President and Chief Operating Officer	Officer
Whiteside, Scott R.	Area Executive Vice President	Officer
Winn, Donald J.	Area President	Officer
Youngbar, Alice G.	Area President	Officer

**Entity Vitals**

**Entity Name** ARTHUR J. GALLAGHER & CO. INSURANCE BROKERS OF CALIFORNIA, INC.  
**Domestic Jurisdiction** California  
**Country** United States  
**Entity Type** Corporation  
**Formation Date** 08-08-1986  
**Owner** 100% owned by Arthur J. Gallagher Brokerage & Risk Management Services, LLC  
**Federal Tax ID** 94-3015711  
**Status** Active - Non Dormant  
**Fiscal Year End** December 31

