

RECOMMENDATION APPROVED;
RESOLUTION 18-8258 ADOPTED; AND
AGREEMENT 18-3568 APPROVED;
BY THE BOARD OF HARBOR COMMISSIONERS



Executive Director's
Report to the

Board of Harbor Commissioners

March 15, 2018

AMBER M. KLESGES
Board Secretary

3-15-18
6

DATE: MARCH 6, 2018

FROM: RISK MANAGEMENT

SUBJECT: RESOLUTION NO. 18-8258 - AGREEMENT BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND ALLIANT INSURANCE SERVICES, INC. FOR INSURANCE BROKERAGE AND RISK MANAGEMENT SERVICES

SUMMARY:

Staff requests the approval of an Agreement between the City of Los Angeles Harbor Department (Harbor Department) and Alliant Insurance Services, Inc. (Alliant) for insurance brokerage and risk management services. The proposed Agreement is for a term of five years and a not-to-exceed amount of \$28,000,000.

As the Broker of Record for the Harbor Department, Alliant will assist the Harbor Department in procuring commercial property and casualty insurance to support operational needs and assist risk management staff in administering the Harbor Department's insurance and risk management program. Compensation under the proposed Agreement includes fees for the broker's services and for the pass-through of insurance premium payments from the Harbor Department to insurance companies. The Harbor Department is financially responsible for the costs incurred under the proposed Agreement.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners (Board):

1. Find that the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines;
2. Find that in accordance with the Los Angeles City Charter Section 1022, it is more feasible for outside consultants to perform this work than City employees;

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3. Approve the Agreement with Alliant for a five-year term and a not-to-exceed amount of \$28,000,000;
4. Authorize and direct the Board Secretary to transmit the Agreement to the City Council for its approval pursuant to Section 373 of the City Charter and Section 10.5 of the Los Angeles City Administrative Code;
5. Authorize the Executive Director to execute and the Board Secretary to attest the Agreement upon approval by City Council; and,
6. Adopt Resolution No. 18-8258.

DISCUSSION:

Background and Context – The Harbor Department’s insurance and risk management program is traditionally managed by the Risk Management Division with assistance from a licensed professional insurance broker. The program utilizes widely practiced risk management techniques, which includes the purchase of commercial property and casualty insurance policies, transfer of risk to third parties, use of self-insured retentions, and use of loss control programs to protect the Harbor Department from operational risk perils.

Licensed insurance brokers are commonly utilized by public and private entities as insurance brokers are equipped with special training, expertise, access and familiarity with the worldwide insurance market and products, risk management resources that assist with claims management and loss control, and possess licenses required by the California Department of Insurance to procure insurance. Insurance brokers play a vital role in procuring the necessary types of coverage and appropriate levels of insurance at competitive prices to offset the potential financial impact of losses resulting from Harbor Department operational activities.

Commercial property and casualty insurance is beneficial as it protects Harbor Department assets and operations from minor accidents to major losses and from injury or damage claims made by other parties. Insurance can provide the financial means to repair, rebuild, or purchase damaged or destroyed assets; cover incidental costs incurred in resuming business operations; and if necessary, pay on behalf, any amount the Harbor Department is obligated to pay, up to the terms of the insurance policy. Holding such

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insurance is essential to mitigating the operational risk perils and maintaining the financial stability of the Harbor Department.

Harbor Department Risk Management staff are not licensed to procure insurance and because of the type, capacity, and complexity of coverages needed to protect the Harbor Department against its maritime and public entity exposures, insurance brokers such as Alliant are traditionally utilized.

Selection Process – In November 2017, the Harbor Department issued a Request for Proposal for insurance brokerage and risk management services on the City of Los Angeles Business Assistance Virtual Network and the Port of Los Angeles website. Proposals were received from two firms and evaluated by a five-member selection committee comprised of Harbor Department and Department of Water & Power Risk Management staff. Both firms were invited to participate in a selection interview in January 2018. The committee evaluated both firms according to the following interview criteria:

- Firm Qualifications, Experience, and References (15%);
- Personnel Qualifications, Experience, and References (20%);
- Technical Knowledge (20%);
- Project Approach, Work Plan, and Management (15%);
- Brokerage Resources (15%); and
- Fee Schedule (15%)

Based on the selection interview scores, the selection committee ranked Alliant as the more qualified firm to provide insurance brokerage and risk management services to the Harbor Department. Interview scores are detailed in Transmittal 01.

Alliant currently serves as the Harbor Department's insurance broker under Agreement 3316 and has met expectations. Through January 2018, the Harbor Department has expended \$9,085,920 for broker fees and insurance expenses from the agreement's \$13,450,000 total compensation authority. This three-year agreement is due to expire in April 2018.

Proposed Agreement - Approval of the Agreement (Transmittal 02) would authorize the Harbor Department to expend up to \$28,000,000 over a five-year period that covers broker compensation and insurance expenses. The actual amount to be budgeted each

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year will be formulated and requested as part of the Harbor Department's annual budget process.

Broker compensation, comprised of broker fees and fees for as-needed specialized risk management consulting services and projects over the five-year period, shall not exceed \$625,000 for broker fees (\$413,917) and as-needed additional services (up to \$211,083). The \$413,917 broker fee shall be paid each year as follows; \$78,000 for the first year of the Agreement, \$80,300 for the second year, \$82,700 for the third year, \$85,181 for the fourth year, and \$87,736 for the fifth and final year.

Insurance expenses under the proposed Agreement shall not exceed \$27,375,000 over the five-year period for the payment of commercial property and casualty insurance policies and related expenses. Due to the long lead time involved, the insurance expense amount requested under the proposed Agreement would need to sufficiently cover the Harbor Department's projected insurance expenses for the next five years and allow for contingencies that would arise during the course of the Agreement. Such contingencies include escalation in premium costs resulting from insurance market changes, changes in the Harbor Department's operations, changes to the Harbor Department's risk profile, increases in the number or value of capital assets, and procurement of additional types of insurance policies.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of an Agreement with Alliant for insurance brokerage and risk management consultant services related to the Harbor Department's insurance and risk management program. As an administrative activity, the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of the CEQA in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

Approval of the proposed Agreement allows the Harbor Department to expend up to \$28,000,000 for broker compensation and insurance expenses over a five-year period. It is currently anticipated that funds will be requested as follows:

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FISCAL YEAR	BUDGET REQUEST AMT.	UNREQUESTED AMT.	AGREEMENT TOTAL
2017-18	\$35,000	\$0	\$35,000
2018-19	\$3,412,000	\$0	\$3,412,000
2019-20	\$4,100,000	\$2,047,000	\$6,147,000
2020-21	\$4,100,000	\$2,047,000	\$6,147,000
2021-22	\$4,100,000	\$2,047,000	\$6,147,000
2022-23	\$4,090,000	\$2,022,000	\$6,112,000
TOTAL	\$19,837,000	\$8,163,000	\$28,000,000

Funds for FY 2017-18 are available in Center 0550, Program 000, Account 59390 and Account 54490. Funds for FY 2018-19 are being requested under the current budget adoption process and subject to Board Approval. Funds for the remaining future fiscal years will be formulated and requested as part of the annual budget adoption process and may differ from above as changes to the Harbor Department's risk profile and operational needs and the insurance market over the course of the five-year agreement will affect the funding amount to be requested. Each future fiscal years' amount will not exceed the adopted budget for that future fiscal year. A funding out clause has been included in the Agreement.

An alternative to the insurance brokerage agreement would be for the Harbor Department to fully self-insure all of its property and casualty risk exposures. Fully self-insuring would expose the Harbor Department to potentially significant loss affecting its financial viability and ratings, operational sustainability, and require additional staff to manage the claims and defense once handled by insurance firms. The Harbor Department, like many other ports and public entities, utilizes a combination of widely practiced risk management techniques which include the use of commercial property and casualty insurance, risk transfer, self-insured retentions, and loss control programs.

CITY ATTORNEY:

The Office of the City Attorney has prepared and approved the proposed Agreement as to form and legality.

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TRANSMITTALS:

1. Scoring Matrix
2. Agreement with Alliant Insurance Services, Inc.

FIS Approval: MB (initials)
CA Approval: MB (initials)


KATHY MERKOVSKY
Director of Risk Management


MARLA BLEAVINS
Deputy Executive Director
and Chief Financial Officer

APPROVED:

 FOR

EUGENE D. SEROKA
Executive Director

KAM:ct
Author: C. Tran