

THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY

COMMITTEE ON FINANCE

MINUTES

Wednesday, August 4, 2004

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THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY**MINUTES OF COMMITTEE ON FINANCE****225 Park Avenue South****New York, NY****Wednesday, August 4, 2004****PRESENT:**

Hon. Anthony R. Coscia, Chair
Hon. Bruce A. Blakeman
Hon. Henry R. Silverman
Hon. David S. Steiner
Committee Members

Hon. Charles A. Gargano

Joseph J. Seymour, Executive Director
Jeffrey S. Green, General Counsel

A. Paul Blanco, Acting Chief Financial Officer
Bruce D. Bohlen, Treasurer
Darrell B. Buchbinder, General Counsel-Elect
Timothy Castano, Senior Business Consultant, Office of the Chairman
James T. Connors, Deputy Director, Real Estate
William R. DeCota, Director, Aviation
Linda C. Handel, Assistant Secretary
Edward L. Jackson, Director, Financial Services
L. Jay Hector, Senior Policy Advisor to the Vice-Chairman
Robert F. Lurie, Chief of Strategic Planning
Anne Marie C. Mulligan, Deputy Treasurer
Catherine F. Pavelec, Manager, Administration, Protocol and Executive Correspondence,
Office of the Secretary
Edmond F. Schorno, Chief of Staff

The Committee meeting was called to order in executive session by the Chair at 11:40 a.m. and the meeting ended at 12:50 p.m.

Action on Minutes

The Assistant Secretary reported that the Minutes of the meeting of May 20, 2004 had been signed and distributed to the Commissioners.

Whereupon, the Committee unanimously approved the Minutes of May 20, 2004.

AUTHORIZATION OF CONTRACTOR INSURANCE PROGRAM

It was recommended that the Committee on Finance authorize the Executive Director, the Chief Financial Officer, or the Treasurer to enter into an agreement with Aon Risk Services, Inc. (Aon) for a three-year term commencing August 1, 2004, as the broker for, and administrator of, the Port Authority's Contractor Insurance Program (CIP), whereby Aon would arrange for the purchase of Workers' Compensation, General Liability and Builders' Risk Insurance in connection with the CIP and administer the CIP and related safety and loss control programs at a cost of \$3.6 million in fees and an estimated \$5.25 per \$100 of projected contract payments to be made during the three-year period.

This agreement is necessary to maintain Workers' Compensation, General Liability and Builders' Risk Insurance for contractors and subcontractors engaged in work under construction and inspection contracts of the Port Authority (and its wholly owned subsidiaries). The procurement of these coverages by the Port Authority generates significant savings over individual contractor-procured coverages, and ensures uniform policy limits and coverage. In addition, through the CIP the Port Authority ensures improved project safety resulting from use of a coordinated, uniform approach for safety and loss control programs.

In a traditional construction program, the procurement of insurance coverage is a fragmented process. Contractors and subcontractors are expected to purchase general liability, workers' compensation and builders' risk insurance individually, and they factor the cost of these coverages into their bids. This, in turn, can lead to high costs for the insurance component of such bids, as well as lack of uniformity in policy coverage and limits. These problems may well be manifest in the context of a large construction project or a multi-project environment. To address such concerns, the Port Authority established the CIP in 1986. The CIP: (1) allows the Port Authority to save money (as compared to contractor-procured insurance) by use of its volume purchasing power; (2) ensures broader, more comprehensive and uniform insurance coverages; (3) eliminates delays in awarding contracts and work stoppages resulting from a contractor's inability to obtain or maintain adequate insurance; (4) improves project safety through a coordinated approach to project safety and loss control programs; (5) transfers a significant policy administration workload from Port Authority staff to the broker; (6) benefits smaller contractors that might otherwise not have been eligible to obtain Port Authority work due to their inability to obtain adequate insurance coverage; and (7) reduces litigation among parties on a specific job site, because all parties are covered by one insurance policy.

In 1999, Aon was selected as the broker for the CIP, and on June 24, 1999, the Committee authorized entrance into an agreement for the purchase of CIP insurance coverage, program administration, and provision of related safety and loss control services for a three-year period with two one-year extension options. The initial three-year term of the resulting contract for the period between August 1, 1999 and August 1, 2002, was at an estimated premium rate of \$3.81 per \$100 of projected contractor payments and a service fee not to exceed \$2.1 million for the full period. Thereafter, the Treasurer exercised the two extension options on August 1, 2002 (renewal premium rate of \$3.814 per \$100 of projected contractor payments, and an annual broker service fee of \$1,000,000) and August 1, 2003 (renewal premium rate of \$4.237 per \$100 of projected contractor payments, and another \$1,000,000 annual broker fee).

Given the present unsettled insurance environment, the significant construction being undertaken by the Port Authority over the next three years, and the unique issues that Port Authority CIP exposures present to the insurers, staff believes that it is in the best interests of the Port Authority to retain the broker and underwriters that are presently providing service and coverage under the program.

Pursuant to the foregoing report, the following resolution was adopted by the Committee in executive session with Commissioners Blakeman, Coscia, Silverman and Steiner voting in favor; none against:

RESOLVED, that the Executive Director, the Chief Financial Officer or the Treasurer be and each hereby is authorized, for and on behalf of the Port Authority (and its wholly owned subsidiaries), to enter into an agreement with Aon Risk Services, Inc. (Aon) for a three-year term commencing August 1, 2004, as the broker for, and administrator of, the Port Authority's Contractor Insurance Program (CIP), whereby Aon will arrange for the purchase of Workers' Compensation, General Liability and Builders' Risk Insurance in connection with the CIP and administer the CIP and related safety and loss control programs at a cost of \$3.6 million in fees and an estimated \$5.25 per \$100 of projected contract payments to be made during the three-year period; and it is further

RESOLVED, that all documentation required to effectuate the foregoing shall be subject to review by General Counsel or his authorized representative.

Whereupon, the meeting was adjourned.

Assistant Secretary