

THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY

COMMITTEE ON FINANCE

MINUTES

Tuesday, December 18, 2007

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MINUTES OF COMMITTEE ON FINANCE

225 Park Avenue South

New York, NY

Tuesday, December 18, 2007

PRESENT:

Hon. Henry R. Silverman, Chair

Hon. Bruce A. Blakeman

Hon. Anthony R. Coscia

Hon. David S. Steiner

Committee Members

Darrell B. Buchbinder, General Counsel

Karen E. Eastman, Secretary

Veronica Biddle, Assistant Director, Treasury

A. Paul Blanco, Chief Financial Officer

Michael G. Fabiano, Deputy Chief Financial Officer/Comptroller

Marc LaVorgna, Assistant Director, Media Relations, Public Affairs

James E. McCoy, Manager, Board Management Support, Office of the Secretary

Anne Marie C. Mulligan, Treasurer

Guest:

Sonia Frontera, Authorities Unit, Office of the Governor of New Jersey

The Committee meeting was called to order by the Chair in public session, which began at 12:10 p.m. and ended at 12:25 p.m. Commissioner Coscia was present for a portion of the meeting.

Action on Minutes

The Secretary reported that the Minutes of the meeting of October 18, 2007 had been signed and distributed to the Commissioners.

Whereupon, the Committee approved the Minutes of the meeting of October 18, 2007.

PUBLIC LIABILITY INSURANCE PROGRAM – EXTENSION OF BROKERAGE AGREEMENT

It was recommended that the Committee on Finance authorize the extension of the existing brokerage agreement for the Public Liability Insurance Program (Program) with Marsh USA, Inc. (Marsh), which expires following the placement and administration of the October 27, 2007 Program renewal, for an additional one-year term, to place the coverage for the renewal of the Program on October 27, 2008 and service the Program for the one-year term through October 2009, at an annual compensation rate of up to \$800,000. The Executive Director, the Chief Financial Officer, the Director of Procurement or the Treasurer each would be authorized to take action to effectuate the extension of the brokerage agreement.

At its October 18, 2007 meeting, the Committee authorized the purchase of public liability insurance with appropriate available limits, self-insured retentions and other terms, including coverage for loss arising from terrorist acts, for all facilities of the Port Authority and its wholly owned entities, for a one-year term commencing October 27, 2007, through the existing brokerage arrangement with Marsh, at an estimated premium of \$24.5 million. The brokerage fee for Marsh to place and administer the Program for the October 27, 2007 to October 27, 2008 policy term, pursuant to the exercise by the Port Authority of the second of two one-year renewal options, was \$800,000.

In March 2005, Marsh was chosen, pursuant to a publicly advertised Request for Proposals process, to provide brokerage services to administer the existing Program through its expiration on October 27, 2005 and to place the Program for the October 27, 2005 to October 27, 2006 policy term. The Port Authority subsequently exercised its option to renew the agreement it had with Marsh for two succeeding one-year periods, based on Marsh's performance. During its tenure as broker for the Program, Marsh has secured higher limits and reduced pricing. This was accomplished through its market presence, introduction of new carriers to the coverage, the ability to return insurance companies that declined to participate in the Program in recent years, and maintenance of existing underwriters on the account during a period of difficult Port Authority relationships with the European carriers. Marsh also has been successful in preserving the challenging excess Workers' Compensation coverage within the Program structure, which benefits the Port Authority by offering greater excess capacity at lower cost than a stand-alone excess Workers' Compensation program could supply.

In addition, the continuity in the existing brokerage relationship and Marsh's experience with the Program have served as tremendous resources for the Port Authority to gain information on market trends, emerging issues in risk management, alternate risk financing, available coverage not currently in the agency's portfolio and potential benefits therefrom, and access to professional resources at no additional cost.

Extending the existing brokerage agreement for the Program with Marsh for one year would make its term consistent with the brokerage agreement for the property damage program that is due to expire following the June 1, 2008 renewal. For the subsequent insurance program renewals, staff would initiate a combined Request for Proposals process to select a single broker to handle the placement and administration of the two programs. The use of a single broker for both public liability and property damage insurance programs is common in the insurance industry, and is an approach used by other public entities, including the New York State Metropolitan Transportation Authority. It is anticipated that joining the contract terms of both

insurance programs under one brokerage agreement would serve the Port Authority through possible reduction in overall brokerage costs, as well as through increased financial protection under a number of initiatives, including the potential opportunity of combining certain excess coverage, uniting portions of the terrorism coverage of the two programs, and pursuing other alternative risk financing methodologies. Further, since the firms traditionally proposing to provide the brokerage services for both of these major insurance areas are the same, competition will not be negatively affected. Staff would continue to seek separate approval for each annual insurance coverage placement from the Committee on Finance.

The Committee has authority to act in this matter under Article VIII, Section B(3) of the By-Laws.

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

RESOLVED, that the Executive Director, the Chief Financial Officer, the Director of Procurement or the Treasurer be and each hereby is authorized, for and on behalf of the Port Authority, to take action to effectuate the extension of the existing brokerage agreement for the Public Liability Insurance Program (Program) with Marsh USA, Inc. (Marsh), which expires following the placement and administration of the October 27, 2007 Program renewal, for an additional one-year term, to place the coverage for the renewal of the Program on October 27, 2008 and service the Program for the one-year term through October 2009, at an annual compensation rate of up to \$800,000 and in accordance with the conditions outlined to the Committee; and it is further

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

Whereupon, the meeting was adjourned.

Secretary