PURCHASE OF PUBLIC LIABILITY INSURANCE

It was recommended that the Committee on Finance (Committee) authorize the Executive Director, the Chief Financial Officer, the Director of Procurement, or the Treasurer to purchase public liability insurance through the broker, Marsh USA, Inc. (Marsh), with the 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 effective October 27, 2008, at an estimated premium of $25 million. The estimated cost provides for the purchase of terrorism coverage under the federal Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA) through the Port Authority Insurance Captive Entity, LLC (PAICE), and is inclusive of any premium that would be paid to PAICE. This insurance is needed to protect the Port Authority and its wholly owned entities against potential losses related to bodily injury and property damage claims or suits brought by third parties.

At its October 18, 2007 meeting, the Committee authorized the purchase of public liability insurance on similar terms for a one-year term effective October 27, 2007, at an estimated cost of $27 million, and, after further negotiations, the program was subsequently placed, at a total premium of $24.5 million. That insurance purchase was effectuated through the exercise, by the Port Authority, of the final renewal option of a three-year contract with Marsh, at a brokerage fee of $800,000.

Thereafter, at its December 18, 2007 meeting, the Committee authorized a further extension of the existing brokerage agreement for the public liability insurance program with Marsh, for an additional one-year term, at an amount up to the broker's final annual compensation rate of $800,000. This extension was accomplished to make the year of expiration of the term of the brokerage agreement for the public liability insurance program the same as that of the property damage insurance program. For the subsequent insurance program renewals in 2009, staff will initiate a combined Request for Proposals process to select a single broker to handle the placement and administration of both programs. This approach of combining the brokerage agreements for both programs, which is common in the insurance industry and is a method employed by other public transportation entities, is expected to provide an opportunity to increase the financial protection afforded the agency through various initiatives, along with the possibility of reducing overall brokerage costs.

The estimated premium reflects current market conditions, as well as the Port Authority's experience, and assumes the purchase of insurance at the limits of the expiring program. It is expected that the Port Authority will: (1) retain the underwriters that are presently providing coverage and solicit additional insurers to participate, to better leverage pricing of the insurance layers; and (2) utilize PAICE, the Port Authority's captive, on the program, in order to gain additional capacity and pricing considerations, particularly with regard to terrorism coverage under TRIPRA.

The Committee has power 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 Chasanoff, Holmes, Pocino and Silverman 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 (and its wholly owned entities), to purchase public liability insurance through the broker, Marsh USA, Inc., with the 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 effective October 27, 2008, at an estimated premium of $25 million; 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.