



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Mark Danaj
Scott P. Johnson

SUBJECT: SEE BELOW

DATE: May 29, 2007

Approved

Ray Winer

Date

6/3/07

**SUBJECT: SECOND AMENDMENT TO THE AGREEMENT WITH WILLIS
INSURANCE SERVICES OF CALIFORNIA INC.**

RECOMMENDATION

Adoption of a resolution authorizing the City Manager to negotiate and execute the second amendment to the agreement with Willis Insurance Services of California Inc. ("Willis"), for citywide insurance broker services, to extend the current contract from July 1, 2007 to June 30, 2008 with the same terms and conditions including a cap on commissions paid to Willis by insurance carriers for placement of the City's policies in an amount not to exceed \$241,000.

OUTCOME

To extend the current contract affording the Administration time to develop a Request for Proposal with a more comprehensive scope of service to include major risk management services, such as loss control, safety, risk retention, and risk management policy development.

BACKGROUND

On April 22, 2003, City Council adopted resolution number 71507 authorizing the City Manager to take any necessary action to replace the City's then current insurance broker with Willis Insurance Services of California, Inc. ("Willis"). The resulting agreement with Willis requires Willis to provide insurance brokerage service until June 30, 2005, subject to two one-year extensions. On July 1, the City exercised the last option to extend the agreement, which is scheduled to end on June 30. On September 12, 2006, Council approved the first amendment to the agreement by capping the commission paid to Willis for placement of the City's insurance policies, saving the City approximately \$65,000 in comparison to the previous fiscal year commission payment.

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The Redevelopment Agency has a separate agreement with Willis for insurance brokerage services; however, the City's Finance Department coordinates the purchase of insurance coverages for both the City and the Redevelopment Agency. Consistent with this recommendation, the Agency will extend its agreement with Willis until June 30, 2008.

ANALYSIS

In September 2006, the City Manager commissioned a study of the City's Risk Management function. ArmTech, the City's Risk Management consultant, released the final report on March, 26, 2007. The report includes several findings and recommendations to assist the City in developing a comprehensive risk management program with a single point of accountability. As a result of ArmTech's recommendations, the City's property and casualty risk management function will be transferred from Finance to Human Resources as of July 1, 2007 to combine the City's property and casualty risk management function with the City's Workers' Compensation risk management function. This will allow the City to ensure the coordination and management of various risk management functions in a single department.

Parallel to the Risk Management Study, Finance issued a Request for Proposal to seek proposals for the City's Property and Casualty Insurance Broker Services. The proposals were received on April 12 and evaluated. After evaluation of the proposals and based on the recommendations of the ArmTech report, Finance and Human Resources halted the evaluation process to explore various options to address the ArmTech report. After evaluating various options, staff will re-issue a Request for Proposal for Insurance Broker Services with an expanded scope including but not limited to purchasing property and casualty insurance risk assessment, safety and loss control, development of a risk profile for the City, and assistance with developing risk management policy and procedures.

During the current contract period, Willis demonstrated the ability to perform property and casualty insurance and risk management functions in a timely and efficient manner by successfully completing tasks as outlined in the contract. The Broker's performance has been responsive to the City's needs. Through the past years the City and the Redevelopment Agency have benefited from the brokers professional knowledge, skills, and advice.

With this memorandum, staff recommends amending the existing contract to extend the term of the contract by one year starting July 1, 2007 until June 30, 2008 with the same terms and conditions and compensation. The annual compensation will be a capped commission in the amount of \$241,000.

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POLICY ALTERNATIVES

- Alternative:** Award a contract as a result of the current RFP for Property and Casualty Insurance Services during Council recess to ensure continued property and casualty insurance brokerage services.
- Pros:** The City would avoid the additional costs associated with a new RFP process.
- Cons:** Other risk management issues as identified in the ArmTech report (loss control, safety, risk retention, development of a risk management policy, etc.) are not addressed. Issuing a Request for Proposal separately for risk management services would not capture the synergy an insurance broker provides through the knowledge of the City's risk exposure and a risk management consultant addressing the aforementioned risk management services.
- Reason for not recommending:** The City is developing a comprehensive risk management program with a single point of accountability as recommended by the Risk Management Assessment report. An insurance broker, which can provide the additional Risk Management services, to assist the City to achieve this goal is desirable.

PUBLIC OUTREACH/INTEREST

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

Although this item does not meet any of the above criteria, the Council Memorandum will be posted on the City's Internet Site for the June 19, 2007 Council Agenda.

COORDINATION

This memorandum has been coordinated with the Redevelopment Agency and the City Attorney's Office.

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FISCAL/POLICY ALIGNMENT

This Council item is consistent with Council approved Budget Strategy Memo, General Principle #2, "We must focus on protecting our vital core city services".

COST IMPLICATIONS

Not applicable.

BUDGET REFERENCE

Not applicable.

CEQA

Not applicable.


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Director, Human Resources


SCOTT P. JOHNSON
Director, Finance

For questions, please contact, Walter C. Rossmann, Deputy Director, Finance, (408) 535-7051.