

FOR CONSIDERATION

February 19, 2010

TO: The Directors

FROM: Dennis M. Mullen

SUBJECT: Corporate Insurance Policies

REQUEST FOR: Authorization to approve Cool Insuring Agency Inc. as sole Insurance Broker for ESDC and its Subsidiaries; Authorization to Place Corporate Insurance Policies with Chartis, a division of American International Group (AIG), The Hartford and Great American Insurance Company and to Take Related Actions

BACKGROUND

For over fifteen years, the NYS Office of General Services Bureau of Insurance (OGS) and Maloy Risk Services (Maloy) have marketed and placed insurance policies on behalf of ESDC and its subsidiaries. The types of insurance (the Program) include Commercial General and Excess Umbrella Liability Insurance, Real and Personal Property Insurance, Marine Liability Insurance, Inland Marine Insurance, Accidental Death/Dismemberment Insurance, Employee Dishonesty Insurance, Long and Short Term Disability Insurance, Workers Compensation/Employer's Liability Insurance and Contractors Pollution Liability and Pollution Legal Liability Insurance.

Currently, a total of 25 policies representing \$2.386 million in premiums are placed by OGS and Maloy. \$2,227,000 million or 93% of the current policies were marketed and placed by OGS, through its State approved brokers (Cool Insuring Agency, Inc., Marsh USA, Inc. and Willis of New York, Inc.). Maloy placed a total of \$159,000 or 7% of the current policies and its fees were paid by the insurance carriers underwriting the policies. ESDC paid OGS a fee of \$62,341 for facilitating placement of the policies with its brokers.

In anticipation of renewal of the 2010 insurance Program, management decided to explore cost savings opportunities and opted to issue a Request for Proposal (RFP) for an Insurance Broker providing marketing, placement, administrative and claims handling services. Management felt that cost savings opportunities may exist by (a) contracting directly with a broker thereby eliminating OGS third party fees and (b) market competition to become the sole broker for ESDC's \$2.386 million insurance business could result in competitive pricing.

Contractor Selection Process:

An RFP was advertised in the New York State Contract Reporter on November 9, 2009. Proposals were received from Marsh USA, Eg Bowman & Sons, Marshall & Sterling, Cunningham Group, Cool Insuring Group and Willis Group Holdings. The ESDC review committee evaluated all six proposals and elected to interview Willis Group Holdings and Cool Insuring Group as the two most qualified and lowest bidders. To assist with the Willis and Cool evaluation, ESDC also contracted with an insurance consultant who was the former chief of OGS Bureau of Insurance and Risk Management and who also serves as an insurance advisor to various ESDC subsidiaries. Cool Insuring Group, received the highest overall ranking by the review committee as well as from the ESDC insurance consultant. Cool Insuring Group proposed the lowest flat rate fee of \$140,000 (net of commissions) annually for providing a wide range of Marketing, Placement, Administrative and Claims handling services, as fully described in the RFP. Through OGS, Cool is also the current broker for 16 or 64% of ESDC's 25 insurance policies and therefore familiar with the insurance needs of ESDC and its subsidiaries.

Accordingly, ESDC Directors are requested to authorize ESDC to enter into a one year contract, with the option of 4 annual renewals, with Cool Insuring Group for a flat rate fee not to exceed \$140,000. Compensation is net of commission; therefore, Cool will not charge any commission on the premium quoted by insurance carriers.

Insurance Marketing/Placement:

On December 28, 2009 Cool was notified of its selection, pending ESDC Directors' approval. Cool offered to commence evaluating the Program so as to facilitate marketing renewal of policies expiring February 28, 2010. Cool also evaluated ESDC Workers Compensation policy which was temporarily renewed with The Hartford in October 2009 with the intention of remarketing as part of the RFP issued in November 2009. However, Cool advised that the \$70,422 premium on the Hartford policy was very competitive and recommended that ESDC not remarket the Workers Compensation insurance policy. Cool proceeded to market ESDC's policies expiring 2/28/2010, subject to ESDC Board of Directors' approval, including Commercial General and Excess Umbrella Liability Insurance, Real and Personal Property Insurance and Accidental Death/Dismemberment Insurance. The Commercial General and Excess Umbrella Liability Insurance and Real and Personal Property Insurance policies include coverage for the Corporation, as well as the 42 Development Project (42DP), Erie Canal Harbor Development Corporation (ECHDC), Harlem Community Development Corporation (HCDC), Harriman Research & Technology Development Corporation (HRTDC), Lower Manhattan Development Corporation (LMDC), Queens West Development Corporation (QWDC), and USA Niagara Development Corporation (USAN).

Premium Savings:

Cool marketed the 2/28/2010 renewals to 8 Carriers, 4 of which responded with quotes. Following Cool's review and evaluation of the quotes, Cool presented to ESDC Finance staff their analysis of quotes and provided their recommendation for renewal. Staff evaluated the recommendations and concurs with Cool's recommendation, based on Cool's risk management expertise as well as their knowledge of the Program. The proposed 2010 renewal premium for ESDC's policies would be \$454,444, a decrease of \$177,815 in premium, or a proposed 28% reduction in premiums over the 2009 level of \$632,259. This decrease is primarily attributable to Cool's aggressive marketing to all the insurers which forced Chartis, a division of American International Group (AIG), to reduce its premium quotes by \$162,500, in order to retain the ESDC's General Liability and Umbrella Liability insurance business. Others factors which contributed to the reduction in ESDC's insurance cost were near-term completion of the Deutsche Bank Building demolition in Lower Manhattan and completion of demolition projects undertaking by ECHDC.

Commission and Fees Savings:

Staff has estimated that had the Program been renewed by OGS, the additional renewal fees would have totaled \$61,206 consisting of 10% broker commissions plus OGS fees of 4% on this portion of the renewal. The proposed fees imposed on top of the premium of \$425,055 includes Cool's prorated fee of \$29,400. The fee saving on this 2/28/10 renewal is determined to be \$31,806. Based on approximately \$1.6 million of the Program which remain to be renewed throughout 2010, staff has estimated that total savings on broker commissions and fees, net of Cool's \$140,000 flat fee, could reach approximately \$151,606. Potential annual savings could reach a total of \$329,421 on the Program's entire 2010 renewals.

Accordingly, ESDC Directors are requested to authorize the placement of insurance as indicated on the following page:

ESDC CORPORATE INSURANCE POLICY

Insurance	Carrier	Policy	Premium Cost
General Liability	Chartis, a division of AIG	Limit of \$2,000,000 General aggregate coverage with \$1,000,000 per occurrence	\$217,747.00
Excess Umbrella Liability	Chartis, a division of AIG	Limit of \$25,000,000 general aggregate	\$70,975.00
Real and Personal Property	The Hartford	Limit of \$15,922,730 in coverage	\$24,764.00
Accidental Death/Dismemberment	The Hartford	Benefit capped at \$175000 (Lifetime; \$1000,000 aggregate	\$33,236.00
Crime-Employee Dishonesty	Great American Insurance Company	\$5,000,000 aggregate	\$7,900.00
Workers Compensation/Employers Liability Insurance	The Hartford	Limit of \$5,000,000 in coverage	\$70,422.00
Total ESDC Premium			\$425,044.00
Cool's Prorated fee (net of Commissions attributed to 2/28/10 renewals)			\$29,400.00
Total Premium/Cool's Fee			<u>\$454,444.00</u>

FUNDING:

Of the total \$454,444 premium (including Cool's fee), ESDC will recover \$318,195 (70%) as indicated below:

ESDC /Subsidiaries	Fund Source	Premium	Cool's Fee	Total
42nd Street	Developer's Fee	\$46,535	\$3,234	\$49,769
ECHDC	Various Funding Entities	\$22,233	\$1,470	\$23,703
LMDC	United State Department of HUD	\$171,172	\$11,760	\$182,932
MLC Hsg. Portfolio	Brownfield's Tax Credit	\$44,265	\$2,940	\$47,205
Victoria Theatre	Sale proceeds	\$5,316	\$638	\$5,954
Other Subsidiaries	Various	\$8,073	\$559	\$8,632
Sub-Total (recoverable)		\$297,594	\$20,601	\$318,195
ESDC*	Corporate	\$127,450	\$8,799	\$136,249
Total Funding		\$ 425,044	\$29,400	\$454,444

*Includes HCDC, HRTDC and USAN.

AFFIRMATION ACTION

ESDC's Non-discrimination and Affirmative Action policy will apply to this contract. Cool is encouraged to use its best efforts to provide for the meaningful participation of Minority and Women-owned Business Enterprises (M/WBEs), Minority Group Members and women for any product/materials or services necessary for the completion of the work, and to consider forming joint ventures, associations, partnerships, or other similar arrangements with M/WBE firms, where appropriate or feasible. The Affirmative Action Unit is available to assist Cool in identifying New York State certified M/WBEs that may provide goods and services in connection with this contract.

REQUESTED ACTION

The Directors are requested to: (1) authorize the approval of Cool Insuring Group as the sole Insurance Broker for ESDC and its Subsidiaries with 4 optional annual renewals at an annual flat rate not to exceed \$140,000; and (2) authorize the renewal of the Corporation's Commercial General and Excess Liability Insurance with Chartis, a division of AIG, Real and Personal Property Insurance, Accidental Death/Dismemberment Insurance and Workers Compensation/Employer Liability Insurance with The Hartford and Crime-Employee Dishonesty insurance with The Great American Insurance Company for the 2010-2011 fiscal year at an annual premium of \$454,444.

ATTACHMENTS

Resolution

February 19, 2010

AUTHORIZATION TO APPROVE COOL INSURING AGENCY AS SOLE INSURANCE BROKER FOR ESDC AND ITS SUBSIDIARIES; AUTHORIZATION TO PLACE CORPORATE INSURANCE POLICIES WITH CHARTIS, A DIVISION OF AMERICAN INTERNATIONAL GROUP (AIG), THE HARTFORD AND GREAT AMERICAN INSURANCE COMPANY AND TO TAKE RELATED ACTIONS

RESOLVED, that based upon the materials presented to the Directors at this meeting, a copy of which is hereby ordered to be filed with the records of the Corporation, that the Chairman and Chief Executive Officer-Designate of the Corporation or Chief Financial Officer or his/ her designee(s) are hereby authorized, in the name and on behalf of the Corporation, to enter into all contracts, agreements and instruments, as the Chairman and Chief Executive Officer-Designate of the Corporation or Chief Financial Officer or his/ her designee(s) shall deem necessary or appropriate in connection with the approval of Cool Insuring Group as the sole Insurance Broker for ESDC and its Subsidiaries with 4 optional annual renewals at an annual flat rate fee not to exceed \$140,000; and (2) authorize the renewal of the Corporation's Commercial General and Excess Liability Insurance with Chartis, a division of AIG, Real and Personal Property Insurance, Accidental Death/Dismemberment Insurance and Workers Compensation/Employer Liability Insurance with The Hartford and Crime-Employee Dishonesty insurance with The Great American Insurance Company for the 2010-2011 fiscal year at an annual premium of \$454,444.

RESOLVED, that all actions heretofore taken on behalf of the Corporation in regard to the replacement of the foregoing insurance policies are hereby approved, ratified and confirmed.
