

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

**OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA**

99-023

SYNOPSIS -

AGENDA:

JANUARY 25, 1999

SUBJECT:

INSURANCE
AGENT/BROKER
SERVICES
CONTRACT

On June 22, 1998, the City Council directed staff to issue a request for proposals (RFP) to competitively select the City's insurance agent/broker of record. On October 19, 1998, the City mailed an RFP to eight interested parties. Proposals were received from Arthur J. Gallagher & Co.; Holmes Murphy & Associates; Jester Insurance Services, Inc.; Kirke-Van Orsdel, Inc.; and LaMair-Mulock-Condon Co. As a result of the evaluation process, Arthur J. Gallagher; Jester Insurance Services, Inc.; and Kirke-Van Orsdel Inc. were interviewed. Jester Insurance Services, Inc. was selected to be recommended to the City Council for consideration.

TYPE:

FISCAL IMPACT -

**RESOLUTION
ORDINANCE
RECEIVE/FILE**

The broker fee decreases on a graduated basis from \$35,000 in the first year to \$25,000 in the last year of the contract. Jester Insurance Services, Inc. guarantees a significant decrease in premiums to be paid. Using the current fiscal year's insurance renewal as a benchmark and assuming the City restructures its insurance program as recommended, Jester Insurance Services, Inc. will contractually guarantee a \$103,000 decrease in premium. The net result would be a \$68,000 saving to the City in the first year (Fiscal Year 2000). The broker and premiums are budgeted for in the Fiscal Year 1999 Operating Budget: Public Works - pp. 16, 19, 23, 25; Engineering - pp. 43, 50; Fire - p. 16; Aviation - p. 13; and Nondepartmental - p. 21.

SUBMITTED BY:

KEVIN RIPER
FINANCE
DIRECTOR

MARK SCHULTZ
RISK
MANAGEMENT
COORDINATOR

RECOMMENDATION -

Approval for staff to negotiate a three-year contract, including the option for two one-year renewals with Jester Insurance Services, Inc. (Owner Bob Jester, 303 Keosauqua Way, Des Moines) for Insurance Agent/Broker Services.

BACKGROUND -

On June 22, 1998, the City Council directed the Finance Director to issue an RFP to competitively select the City's insurance agent/broker of record. On October 19, 1998, the City Council approved the RFP, and the Purchasing Division subsequently mailed eight copies to interested parties. Those receiving RFP's were Arthur J. Gallagher & Co. headquartered in Itasca, Illinois, a suburb of Chicago; Holmes Murphy & Associates; Jester Insurance Services, Inc.; LaMair-Mulock-Condon Co.; and Reynolds & Reynolds; all headquartered in Des Moines, and the Independent Insurance Agents of Des Moines; Insurance Associates of Iowa; and Kirke-Van Orsdel, Inc.; all headquartered in West Des Moines. Of the eight RFP's distributed, five resulted in proposals: Arthur J. Gallagher & Co.; Holmes Murphy & Associates; Jester Insurance Services, Inc.; Kirke-Van Orsdel, Inc.; and LaMair-Mulock-Condon Co.

The five proposals received were reviewed by an evaluation committee consisting of: the City Solicitor who handles insurance and liability issues, the Assistant Aviation Director for Finance and Administration, and the Finance Director. The five proposals were scored according to the evaluation criteria included in the RFP. The three proposals scoring highest were selected for in-person interviews. The three finalists were Arthur J. Gallagher & Co.; Jester Insurance Services, Inc.; and Kirke-Van Orsdel, Inc. (Because of the City's Risk Management Coordinator's familiarity with each of the five companies that submitted proposals, he did not participate in the selection of the three finalists, but did join the evaluation committee for the second and final selection round.) The following is a tabulation of the scoring of the five proposals submitted with a maximum of 650 points being possible:

	Arthur J. Gallagher	Holmes Murphy	Jester	LaMair Mulock Condon	Kirke-Van Orsdel
Score:	520	416	582	435	583

Each of the three finalists was interviewed for two hours by the four-person evaluation committee. Following the interviews, the evaluation committee discussed the interviews and determined that additional information was needed from each

of the finalists in order to make a fair comparison of their proposals, as well as to ensure that the level of service to be provided by each finalist met the expectation of the City and was priced accordingly. In each of the interviews conducted, each finalist mentioned premium savings that could be achieved for the City if their company was selected. Since the notion of premium savings was not broached in the RFP, the evaluation committee requested that each finalist indicate how much premium savings were possible using the City's July 1, 1998 renewal as the baseline and what percentage of savings each would be willing to contractually guarantee. One finalist was also requested to indicate what its fixed fee would be if the City requested "unlimited" access to its staff resources for assistance. This was asked because the other two finalists indicated their fixed fees included unlimited access for assistance.

After reviewing the responses to the requests for additional information, the results of the interviews that were conducted, and the information provided in the original proposals, the evaluation committee selected Jester Insurance Services, Inc. as the finalist offering the best proposal and price for the services to be rendered to the City. In evaluating the three finalists, the evaluation committee scored each finalist based on two evaluation categories: (1) how well each could meet the scope of services required in the RFP and the qualifications of their staff designated to service the City's account; and (2) the fixed fee to be paid by the City and financial incentive (premium savings) to be gained by the City. Two hundred and fifty points were assigned by the committee to each of these categories for a total of 500 points possible. Of the 250 points assigned to financial impact, 125 were allocated based on the impact in the first contract year when most premium savings would be realized, and 125 points based on the subsequent four years when the financial impact will consist primarily of the fixed fees paid to the agent/broker.

Three issues dominated the discussions of the evaluation committee in scoring the finalists. The first was the qualifications of the account team and how well each firm's team understood the public sector environment, particularly as shown by their actual experience in servicing public sector clients. The second was the location of the account team and their ability to respond to the City's need for assistance, including occasional, but urgent, on-site visits. Both the first and second issues are related to the committee's scoring of

evaluation category "1" above. The third was the financial impact of each proposal on the City, which related the scoring of evaluation category "2" above. In scoring the finalists, the evaluation committee discussed these three issues to determine which of the finalists provided the best balance.

On the first of the three issues of concern, the evaluation committee concurred that Jester Insurance Services, Inc. and Arthur J. Gallagher & Co. had the most qualified account teams, with Jester Insurance Services, Inc. being superior because of its specific understanding of the City's operations and of the Iowa regulatory environment. However, Arthur J. Gallagher & Co. was considered a close second because it is the largest public sector broker in the United States and its account team is knowledgeable of municipal government operations and experienced in meeting their needs. The Kirke-Van Orsdel, Inc. account team has relatively limited experience with public sector clients.

On the second issue of concern, all three were considered equal in terms of access to staff because this can be accomplished by telephone, fax, e-mail, etc. However, Jester Insurance Services, Inc. and Kirke-Van Orsdel, Inc. were considered superior in being able to meet any need for urgent on-site visits because both are local, with Jester Insurance Services, Inc. ranking highest due to its downtown Des Moines location. However, Arthur J. Gallagher committed to having a member of the account team on-site within 24-hours of being notified of the need and that this would be accomplished by someone either driving or flying to Des Moines.

On the third issue of concern, the committee concurred that the financial impact on the City favored Jester Insurance Services, Inc. To determine which proposal was financially the most advantageous to the City, two calculations were used: (1) estimating the budgetary impact of each proposal on the City's July 1, 1999 annual insurance renewal that will occur during the first year of the contract; and (2) estimating the budgetary impact of the subsequent four years of the contract.

The component parts of the first year calculation were: (1) the premium savings associated with the finalist's recommendation for restructuring the City's insurance program; (2) the fixed fee and incentive fee for services to be rendered; and (3) the City's July 1, 1998 insurance renewal as the baseline for current premiums paid. The calculation subtracted the proposed

premium savings from the current premium paid and then added back the finalist's fixed fee and incentive fee (see attached chart for summary of the cost/savings/incentive information provided by each finalist). The results of this calculation estimated the City's cost to renew coverage on July 1, 1999 to be as follows:

Finalist	FY98/99 Premium -	Proposed Savings +	Fixed Fee +	Incentive =	Est. 7/1/99 Premium
Jester	589,523	103,000	35,000	- 0 -	521,523
Gallagher	589,523	119,446	30,000	11,945	512,022
KVI	589,523	43,200	68,100	10,800	625,223

Points were allocated by giving the maximum points possible (125) to the most favorable proposal, which was Arthur J. Gallagher & Co., and then dividing that figure by the total estimated cost of each of the less favorable proposals and multiplying the resulting percentage by the total points possible (125). See point allocation below.

The second calculation consisted of adding the fixed fee of each finalist for the four subsequent contract years. The results of that calculation are as follows:

Finalist	2nd Year +	3rd Year +	4th Year +	5th Year =	Total Cost
Jester	32,000	29,000	29,000	25,000	115,000
Gallagher	30,000	30,000	30,000	30,000	120,000
KVI	68,100	68,100	68,100	68,100	272,400

The total points possible (125) were allocated the same, as were those in the calculation of the cost/savings estimate for the July 1, 1999 renewal, but with Jester Insurance Services, Inc. receiving the maximum points possible. See point allocation below.

The following is a tabulation of the scoring of the three finalists for both qualifications/experience and financial impact:

	Arthur J. Gallagher	Jester	Kirke-Van Orsdel
Qualifications/ Experience:	236	250	195
Financial Impact:			
1st Year	125	123	102
<u>Later Years</u>	<u>120</u>	<u>125</u>	<u>53</u>
Total Points	481	498	350

Jester Insurance Services, Inc. scored highest on both experience/qualifications and financial impact on the City. Jester Insurance Services, Inc. indicated that its ability to offer such substantial savings is in part due to a recent joint venture with AON Risk Resources. AON is the second largest insurance broker in the world.

In the process of selecting the finalist to be recommended to the City Council for consideration, the committee agreed that a contract should only be entered into if, at a minimum, the successful finalist contractually agrees to the following requirements or proposed alternatives acceptable to the City: These requirements address the committee's concerns over the comparability of coverage provided to the City, the comparability of the financial strength of the carriers with whom coverage is placed, the validity of the savings guaranteed to the City, and responsiveness to City requests for service.

1. No policy issued for an existing coverage will be placed with an insurance carrier having an A.M. Best insurance rating lower than the insurance carrier with whom the City's current coverage is placed.

2. Each of the City's current policies will be read and analyzed and no policy issued for an existing coverage will be any less comprehensive or more restrictive than the current policy it will replace, and that a detailed side-by-side comparison of the proposed and existing policy will be provided to the City indicating the differences in coverage provided.

3. If the City accepts the restructured insurance program of the successful agent/broker presented in the requests for additional

information, a premium savings of not less than the amount guaranteed in the requests for additional information is guaranteed at the City's first annual renewal of the first year of the three-year contract (July 1, 1999) and that the City's total premium cost at the subsequent two annual renewals of the contract (July 1, 2000 and July 1, 2001) will not exceed the total premium paid by the City at the first annual renewal.

4. If requested by the City, a member of the account team will be on site within 24 hours of the City's request, the account team member sent will be knowledgeable in the area of concern for which the visit is being requested, and the on-site visits will be made at no additional cost to the City up to a maximum of four visits per year.

5. All routine requests for service (telephone, fax, e-mail, etc.) made by the City will be returned by the successful agent/broker in no less than eight hours after the request is made by the City. All urgent/emergency requests (urgent/emergency status of a request will be determined by the City and so indicated at the time the request is made) shall be returned by the successful agent/broker in no less than one hour after the request is made by the City

6. Failure to comply at any time with requirements 1, 2, 3, and 4 above will be deemed sufficient cause for the City to terminate its contract at the end of the first contact year or with thirty-days advance written notice and payment for all unpaid services having been rendered by the successful agent/broker as of the date of termination.

The following is a summary of the responses to these proposed contract provisions: Jester Insurance Services, Inc. accepted each of the six requirements with some conditions placed on Number 3 such as: (a) the total premium charged for property insurance each year may change depending on the change in the replacement value of the property being insured; and (b) the total premium for property and liability coverages could change depending on changes in the City's annual loss ratios. Arthur J. Gallagher & Co. rejected Number 1 because they believe that companies with A.M. Best ratings lower than the ratings of those currently used by the City are financially sound and should also be considered. Gallagher placed similar conditions to those of Jester on Number 3. Kirke-Van Orsdel Inc. rejected Numbers 1, 2, and 3, and accepted Numbers 4, 5, and 6. KVI does not believe that Number 1 provides enough flexibility, that

they could not guarantee Number 2 because insurance companies use their own tailored forms of insurance to provide coverages, and that they could not guarantee rates for a multi-year period as indicated in Number 3 without first negotiating with the carriers.

This was an unusually complex and lengthy RFP process. The high quality of the finalists' proposals, combined with the detailed information and program restructuring ideas provided by Gallagher, Jester, and KVI, resulted in the evaluation committee spending about 200 hours collectively on the process. In addition to the above, the evaluation committee followed up on questions and comments received after the Notice of Intent to Award was sent on Wednesday, January 20, to each of the five proposers. This resulted in several contacts being made to improve the comparability of the information upon which the evaluation committee was basing its cost calculations. The scoring described above incorporates the results of this additional research.

The evaluation committee believed that Jester Insurance Services, Inc. offered the best response to all the proposed requirements and, in addition, offered to enhance Number 4 above by offering to make an unlimited number of on-site urgent/emergency visits at no additional charge to the City and to enhance Number 5 by offering to respond to routine requests for service in no less than four hours rather than the eight proposed.

Attachment