

AMEND BOARD REPORT 06-1025-PR13
AMEND BOARD REPORT 05-0727-PR21
AMEND BOARD REPORT 05-0323-PR12

APPROVE THE EXTENSION OF THE INSURANCE BROKERAGE AND ADMINISTRATIVE SERVICES AGREEMENT WITH AON RISK SERVICES OF ILLINOIS AND THE EXTENSION OF THE INSURANCE PLACEMENT FOR THE BOARD'S OWNER CONTROLLED INSURANCE PROGRAM

THE CHIEF EXECUTIVE OFFICER REPORTS THE FOLLOWING DECISION:

Approve the extension of the Insurance Brokerage and Administrative Services Agreement with Aon Risk Services of Illinois (Aon) to provide broker and run-off services for the Board's Owner Controlled Insurance Program (OCIP), at a cost not to exceed \$165,000 for a 2-year term. Approve a final extension of the OCIP and the extension of the primary and excess liability insurance to September 5, 2005 for the Little Village school project only. All other OCIP coverage ends on April 1, 2005 and Aon will provide services necessary to manage the Board's obligations and bring the program to conclusion. Approve the continued maintenance of the escrow accounts to provide run-off claims and administrative services to pay all OCIP claims incurred prior to September 5, 2005, not to exceed ~~\$6,644,000~~ \$8,611,000. Approve payment to AON for additional insurance audit premium due to AIG as previously authorized, not to exceed \$2,270,000. Approve the extension of the environmental liability insurance for the Board's entire Capital Improvement Program to October 31, 2005 to coincide with the Board's excess liability renewal. Approve payment to Aon for excess (for Little Village), environmental and surety bond premiums, not to exceed \$335,000. A written extension agreement for Aon's services is currently being negotiated. No payment shall be made to Aon during the extension period prior to the execution of the written extension agreement. The authority granted herein as to AON shall automatically rescind in the event a written extension agreement is not executed within 120 days of the date of this Board Report. The extended primary, excess and environmental insurance policies shall serve as the contracts between the Board and its respective carriers, and no further written documentation is required. Information pertinent to this matter is stated below.

This amendment is necessary to extend the primary and excess liability insurance coverage for the Little Village school project from August 20, 2005 to September 5, 2005 to allow for construction completion, at no additional cost to the Board. The primary and excess insurance will continue to be placed with the following carriers: AIG / National Union Fire Insurance Company of Pittsburgh, Pa. / Illinois National Insurance Company, RSUI / RSUI Indemnity Company (formerly Underwriters Reinsurance Co.), Gulf Insurance Company, and St. Paul Fire & Marine Insurance Co.

This second amendment is necessary to i) provide for two options to renew the AON brokerage and program management services agreement periods of one year each, at a cost not to exceed \$25,000 annually, ii) approve payment to AON for additional surety bonding as required by TIG, and iii) approve continued funding of Board escrow accounts through resolution of all claims. A written amendment to the AON agreement is required. The authority granted herein as to the options to renew the AON agreement shall automatically rescind in the event a written amendment to the agreement is not executed within 120 days of the date of this amended Board Report.

This third amendment is necessary to i) provide for one additional option to renew the Aon brokerage and program management services agreement period for one year, at a cost not to exceed \$25,000 for the additional one year period. This amendment will allow an additional contract extension through April 1, 2010 for final resolution of the OCIP program and all existing claims, ii) approve continued funding of Board escrow accounts through resolution of claims and iii) allow for the acceptance of up to \$3,000,000 in deposit escrow funding from AIG Insurance to the Capital Program. The deposit escrow funds were previously deposited with AIG Insurance at the inception of the program with the understanding that they would be returned to the Board after all claim issues are resolved.

Specification No.: 01-250022**Contract Administrator:** Jacqueline Daly (773) 553-2274

Vendor:	Aon Risk Services of Illinois 200 East Randolph, 11 th Floor Chicago, IL 60601 (312) 381-4495 Contact: Matthew Perno Vendor No.: 23844	USER:	Department of Finance 125 S. Clark Street, 14 th Floor Chicago IL 60603 John Maiorca, Chief Financial Officer <u>Pedro Martinez, Chief Financial Officer</u> (773) 553-3280 Eileen Ryan, <u>Director</u> (773) 553-2828
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ORIGINAL AGREEMENT WITH AON: The original Insurance Brokerage and Administrative Services Agreement (authorized by Board Report 01-0328-PR22), in the amount of \$715,000.00, is for a term commencing April 1, 2001 and ending April 1, 2002, with the Board having one option to renew the agreement for an additional 1-year term. The option to renew was exercised for a term commencing April 1, 2002 and ending April 1, 2003, in the amount of \$875,000 (authorized by Board Report# 02-0327-PR18). The agreement was renewed for a 1-year period commencing April 1, 2003 and ending April 1, 2004 in the amount of \$875,000 (authorized by Board Report# 03-0326-PR22) with the renewal agreement containing an option to renew the agreement for another additional 1-year term. The option to renew was exercised for a term commencing April 1, 2004 and ending April 1, 2005 in the amount of \$700,000 (authorized by Board Report# 04-0324-PR29), with no options to renew. The original agreement was awarded pursuant to Requests for Proposals (Specification Nos. 97-220012, 99-250069 and 99-250074).

EXTENSION PERIOD FOR AON AGREEMENT AND INSURANCE PLACEMENT: The term of the AON agreement is being renewed for a 24 month period, commencing April 1, 2005 and ending April 1, 2007. The primary and excess insurance policies will be extended to September 5, 2005 for the Little Village project only. Upon expiration of the extension period on April 1, 2007, the AON agreement will have two (2) additional options to renew for periods of 12 months each, at a cost not to exceed \$25,000 annually. Upon expiration of the extension period on April 1, 2009, the AON agreement will have one (1) additional option to renew for a period of 12 months, at a cost not to exceed \$25,000. The environmental liability insurance policy will be extended to October 31, 2005.

SCOPE OF SERVICES FOR AON: Aon will continue to provide: 1) all OCIP administrative functions associated including, but not limited to, contractor enrollment, tracking bid credits, preparing close out and all necessary reports for the Board and the insurance carriers, 2) Broker services for the marketing, placement and or extension of primary, excess and environmental liability insurance, 3) billing of OCIP audit premiums and environmental liability insurance, 4) claims administration services for the runoff of the existing claims occurring prior to April 1 2005, and 5) escrow services for the OCIP claims account until conclusion of all Board claim obligations.

Further, Aon shall have the right to subcontract with Martin Boyer Company regarding the escrow account and the run-off claims administration services. Aon will arrange for Martin Boyer Company to provide claim administration services for TIG Insurance (4/1/99 to 4/1/02) run-off claims. Claim payments will be issued by Martin Boyer Company through escrow accounts the Board establishes with Aon or Martin Boyer Company.

AON will monitor and invoice all claim escrow payments for Kemper Insurance (4/1/02 to 5/1/03) via its designated claim administrator. Risk Management will encumber claim payment amounts and will deposit escrow funds upon receipt of invoice for prior period payments and report of projected future claim payments. Individual escrow funding payments shall not exceed \$500,000.00 per transfer.

AON will monitor and report claim activity for AIG Insurance (5/1/03 to 9/5/05). Risk Management will continue to fund claim escrow accounts through AIG Insurance and deposit funds for claims administration services and claim escrow payments upon receipt of monthly invoices. Individual escrow funding payments shall not exceed \$500,000.00 per transfer.

Insurance Run-Off

Program	Cost	Details
AIG Insurance Audit	Up to \$2,270,000	Based on anticipated audit of \$35 million additional payroll experience at \$6.48 per \$100 payroll. This audit was agreed to under the Board's agreement with AIG authorized under Board Report# 03-0423-PR17.
AIG Environmental Insurance	Up to \$120,000	Allow extension of Board blanket environmental liability program for the Capital Improvement Program from 4/1/05 to 10/31/05 to coincide with the Board's excess liability insurance renewal.
Excess Liability	Up to \$165,000	Allow extension of excess liability policies with flat premiums, not subject to payroll adjustment. Royal \$91,143 \$10 million xs primary Gulf \$45,497 \$15 million xs \$10 million St. Paul \$27,300 \$25 million xs \$25 million
Surety Bond	Up to \$50,000	To secure TIG claim obligations for the 4/1/05 to 4/1/06 period and any additional annual periods required by TIG.

DELIVERABLES: Aon shall continue to provide (i) monthly enrollment and bid tracking reports, (ii) semi-annual stewardship reports, (iii) quarterly loss runs (iv) monitor claim activity, (v) negotiate the final insurance audits, (vi) successfully close out all remaining projects enrolled in the OCIP and (vii) broker the extension of the OCIP policies to 9/5/05.

OUTCOMES: Aon's services shall conclude the Board's OCIP insurance program and provide cost-effective placement of OCIP underlying insurance policies.

COMPENSATION: Aon shall be paid an administrative fee of \$165,000 for broker and administrative services in quarterly installments; and an amount not to exceed \$2,270,000 for the AIG Insurance audit premium. Premiums will be paid to Aon, who will place the extended coverage and pay the insurance carriers directly in an amount not to exceed \$335,000 for extension of the Board's environmental and excess liability insurance and surety bond. Payments will be made to Martin Boyer Company, Aon (for Kemper claims) and AIG Insurance to fund the established claim escrow accounts, up to ~~\$6,611,000~~ \$8,611,000.

AUTHORIZATION: Authorize the General Counsel to include other relevant terms and conditions in the written extension agreement and amendment. Authorize the President and Secretary to execute the extension agreement and amendment. Authorize the Chief Financial Officer, or his designee, to execute all ancillary documents required to administer or effectuate this extension agreement, the OCIP extension, and the extension of the underlying insurance policies. Also, authorize Chief Financial Officer, or his designee, to effectuate necessary transfers of money to the escrow accounts and to execute the written extension agreements referenced herein at a cost not to exceed \$25,000 annually.

AFFIRMATIVE ACTION: Pursuant to section 3.7 of the Revised Remedial Plan for Minority and Women Business Enterprise Contract Participation (M/WBE Plan) this contract is exempt from review because services classify as a unique transaction (claims administration services).

LSC REVIEW: Local School Council approval is not applicable to this report.

FINANCIAL: Charge ~~\$9,431,000~~ \$11,431,000 to Capital Improvement Program
 Budget Classification:

- 0230-Various Capital Funds-000-9316-5490 FY 2005 \$645,000
- 0230-Various Capital Funds-000-9316-5490 FY 2006 \$4,500,000
- 0230-Various Capital Funds-000-9316-5490 FY 2007 \$1,000,000 + \$1,286,000 = \$2,286,000
- 0230-Various Capital Funds-000-9316-5490 FY 2008 \$2,000,000
- 0230-Various Capital Funds-000-9316-5490 FY 2009 \$2,000,000

GENERAL CONDITIONS:

Inspector General – Each party to the agreement shall acknowledge that, in accordance with 105 ILCS 5/34-13.1, the Inspector General of the Chicago Board of Education has the authority to conduct certain investigations and that the Inspector General shall have access to all information and personnel necessary to conduct those investigations.

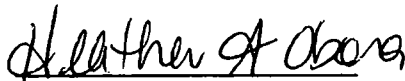
Conflicts – The agreement shall not be legally binding on the Board if entered into in violation of the provisions of 105 ILCS 5/34-21.3 which restricts the employment of, or the letting of contracts to, former Board members during the one year period following expiration or other termination of their terms of office.

Indebtedness – The Board's Indebtedness Policy adopted June 26, 1996 (96-0626-PO3), as amended from time to time, shall be incorporated into and made a part of the agreement.

Ethics – The Board's Ethics Code adopted June 23, 2004 (04-0623-PO4), as amended from time to time, shall be incorporated into and made a part of the agreement.

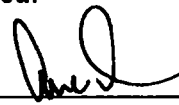
Contingent Liability – The agreement shall contain the clause that any expenditure beyond the current fiscal year is deemed a contingent liability, subject to appropriation in the subsequent fiscal year budget(s).

Approved for Consideration:



Heather A. Obora
Chief Purchasing Officer

Approved:



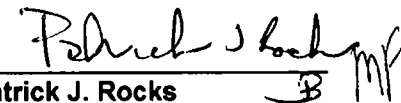
Arne Duncan
Chief Executive Officer

Within Appropriation:



Pedro Martinez
Chief Financial Officer

Approved as to legal form:



Patrick J. Rocks
General Counsel