

## Compensation Agreement

### Fort Bend County & Arthur J. Gallagher Risk Management Services, Inc.

THIS COMPENSATION AGREEMENT is made and entered into and effective the 1<sup>st</sup> day of April, 2014 ("Effective Date") by and between FORT BEND COUNTY, ("Client"), and ARTHUR J. GALLAGHER RISK MANAGEMENT SERVICES, INC., Dallas, Texas, an Illinois corporation ("Gallagher").

#### I. TERM AND TERMINATION

This Agreement shall commence on the Effective Date for a term of one (1) year and shall automatically renew on the first anniversary of the Effective Date and annually thereafter for additional one- (1) year terms but may be terminated by either party at any time upon thirty (30) days prior written notice.

#### II. OBLIGATIONS OF GALLAGHER

Gallagher will provide the services set out on Exhibit A attached hereto (collectively, the "Services") to Client. If the Services include the placement of insurance coverages, Gallagher will use its commercial best efforts to secure such insurance coverages on Client's behalf. In the event an insurance company cancels or refuses to place such insurance coverages, Gallagher will use its commercial best efforts to obtain the coverage from another insurance company.

#### III. OBLIGATIONS OF CLIENT

~~Client shall remunerate Gallagher's usual and customary brokerage commission for the Services. In addition to or in lieu of commission,~~ Client shall pay Gallagher an annual fee of \$150,000 for the Services, as provided in Exhibit B to this Agreement. Client acknowledges that Gallagher and its affiliates (as that term is defined by Section 823.003(a) of the Texas Insurance Code) may receive compensation from insurers and other third parties as described by Exhibit C to this Agreement or as otherwise disclosed in writing to Client prior to the purchase of any insurance product pursuant to this Agreement. Such fee may be revised at the time of renewal of this Agreement by the execution of an amendment to this Agreement signed by the parties hereto. If work is required to be performed in addition to the Services, Client agrees to compensate Gallagher for such additional work at its usual and customary rates. So long as the terms and conditions of the Services are substantially similar and Gallagher's performance is acceptable, in subsequent years the annual fee shall be increased 0\_\_% as is subject to Fort Bend County approval, over the prior year, and shall be payable and earned as provided herein.

#### IV. DISCLOSURES

- A. ~~In addition to such fees, compensation, and commissions provided herein,~~ Gallagher may also receive investment income on fiduciary funds temporarily held by it, such as premiums or return premiums. Other parties, such as excess and surplus lines brokers, wholesalers, reinsurance intermediaries, underwriting managers, captive managers and similar parties, some of which may be owned in whole or in part by Gallagher's corporate parent, may earn and retain usual and customary commissions and fees in the course of providing insurance products to Client as described in Exhibit C to this Agreement. Gallagher may also participate in contingent and supplemental commission arrangements with insurance companies. Contingent commission arrangements provide for additional contingent compensation if underwriting, profitability, volume or retention goals are achieved. Such goals are typically based on the total amount

of certain insurance coverages placed by Gallagher with the insurance company, not on an individual policy basis. Supplemental commissions, unlike contingents, are known at the effective date of the policy, but are typically paid later and apart from when usual and customary commission is paid. Any such income, fees, or commission will not reduce the fees or compensation due to Gallagher under this Agreement.

- B. Gallagher's fees under this Agreement shall be earned on the Effective Date (and any renewal thereof), and payable on invoicing. Client is responsible for payment of premiums for all insurance placed by Gallagher on its behalf. If any amount is not paid in full when due, including premium payments to insurance companies, that nonpayment will constitute a material breach of this Agreement that will allow Gallagher to immediately terminate this Agreement, at its option, without notice to Client. In addition, and not in lieu of the right to terminate, Gallagher reserves the right to apply return premiums or any other payment up to \$5,000 received by Gallagher on Client's behalf to any amounts owed by Client to Gallagher unless such return premiums or other payments are disputed by Client.
- C. Where applicable, insurance coverage placements which Gallagher makes on Client's behalf, may require the payment of federal excise taxes, surplus lines taxes, stamping or other fees, to the Internal Revenue Service (federal), various state(s) departments of revenue, state regulators, boards or associations. In such cases, Client is responsible for the payment of such taxes and/or fees, which will be identified separately by Gallagher on invoices covering these placements. Under no circumstances will these taxes or other related fees or charges be offset against the amount of Gallagher's brokerage fees or commissions referred to herein.
- D. Gallagher will not be operating in a fiduciary capacity, but only as Client's broker, obtaining a variety of coverage terms and conditions to protect the risks of Client's enterprise. Gallagher will seek to bind those coverages based upon Client's authorization, however, Gallagher can make no warranties in respect to policy limits or coverage considerations of the carrier. Actual coverage is determined by policy language, so read all policies carefully. Contact Gallagher with questions on these or any other issues of concern.

#### V. LIMITATION OF LIABILITY

Gallagher's liability to Client, arising from any negligent acts or omissions of Gallagher, whether related to the Services provided hereunder or not, shall not exceed \$20 million in the aggregate. Without limiting the foregoing, Gallagher shall only be liable for actual damages incurred by Client, and shall not be liable for any indirect, consequential or punitive damages.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed on the date first written above.

ARTHUR J. GALLGHER RISK  
MANAGEMENT SERVICES, INC.

By: 

Name: Daniel M. Tropp

Title: Area President

FORT BEND COUNTY

By: 

Name: Robert E. Hebert

Title: County Judge

Comm Ct. 3-25-14

## EXHIBIT A

The following outlines services provided by Gallagher over the term of this Agreement:

- Use its best efforts to secure the following lines of insurance coverage on Client's behalf:

Property Insurance

Casualty Insurance: Automobile, General Liability, Public Officials Liability, Law Enforcement Liability (refer to Brit Package Policy)

Environmental Coverage on Storage Tanks

Excess Workers' Compensation Coverage

Rail Road Protective Liability

Medical Professional Liability

Other coverages as may be needed or considered during the service year

- Consult with FORT BEND COUNTY to formulate a marketing strategy that focuses on delivering a cost-effective risk management strategy and structure based upon current market conditions.
- Work with FORT BEND COUNTY to produce comprehensive underwriting data and criteria for insurance carrier negotiations.
- Formally present coverage submissions to agreed upon insurance carrier(s) and negotiate terms on behalf of FORT BEND COUNTY .
- Summarize the results of executing the marketing strategy developed with FORT BEND COUNTY.
- Provide consultation to FORT BEND COUNTY on exposures, existing coverage, and the desirability and/or feasibility of potential program changes when recommended by Gallagher or when requested by the client.
- Request change endorsements, when requested by the client or when otherwise necessary, ensuring accuracy and delivery in a timely manner.
- Administration of insurance program, including policy review and issuance, invoicing, coordination and/or issuance of required documentation, i.e., automobile identification cards, certificates of insurance, and other program administration, as required by the client.
- Review accounting and billing data received from insurance markets on client's behalf to ensure accuracy.
- Consult with FORT BEND COUNTY on Contracts; review of insurance requirements.

## **EXHIBIT B**

### **COMPENSATION RECEIVED BY GALLAGHER**

To the best of Gallagher's knowledge at the time of this Agreement, the following is a complete listing of fees to be paid by Client to Gallagher under this Agreement:

Broker fee in the amount of \$150,000 on policies written as part of the Services set forth on Exhibit A.

No commissions will be paid to Gallagher on any of the insurance policies referenced on Exhibit A.

**If additional services are required, other than those set out in Exhibit A, Client agrees to compensate Gallagher for those services at its usual and customary rates.**

## **EXHIBIT C**

### **COMPENSATION RECEIVED BY GALLAGHER FROM INSURERS AND OTHER THIRD PARTIES**

To the best of Gallagher's knowledge at the time of this Agreement, the following is a complete listing of monies received by Gallagher from insurers and other third parties as a result of the Services to be performed under this Agreement on Exhibit A:

No other compensation or commission is provided from the insurers listed on Exhibit A

Comm Court  
3/25/14

**RISK MANAGEMENT DEPARTMENT**  
Fort Bend County, Texas

Wyatt O. Scott  
Director

Phone: 281-341-8630  
Fax: 281-341-3751

March 19, 2014

Commissioners' Court  
Fort Bend County  
301 Jackson Street  
Richmond, TX 77469

Re: Premier Public Entity Package & Lexington Insurance Excess Property Insurance  
Renewals for Policy Year 4/1/2014-4/1/2015

Dear Honorable Court Members:

Attached you will find a renewal summary of the Premier Public Entity "Package" (Brit Insurance) and the Lexington Insurance Company Excess Property insurance programs. The Premier Package program provides Fort Bend County its' first layers of coverage after meeting self-insured retentions for its' property and casualty exposures. The Property Excess coverage provides \$250MM (\$50MM sub-limit for windstorm) coverage limits in excess of the Package limits of \$1MM.

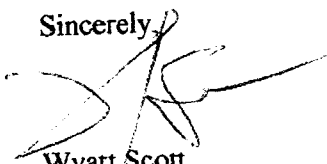
Please note that exposures and the basis for premium rating have significantly increased for payroll (5%) and total insured property value (TIV) from \$548MM to \$558MM. Although the County increased its' TIV by 2%, Lexington gave the County a rate reduction of two percent, from \$0.167 to \$0.164. Of note, the Carrier continues to provide the County its' historical and requested capacity or insured limits. Other options were submitted but are not recommended as they were deficient in ability to meet capacity requirement or inability to meet target terms (pricing). Twenty-eight markets were not competitive or declined to quote. One other feasible option was presented which required a layered structure of multiple carriers in order to provide the County with the required insured limits. It quoted a slightly higher premium, at a rate of \$0.1656. Due to the long-standing relationship with Lexington and their rate reduction this year, which appears to reflect that they value this relationship, my recommendation is to renew the Lexington Excess Property Insurance. I also recommend renewing the Brit Insurance package program as it has served the County's insurance needs well. I consider it a flat rate renewal.

Of note, I have negotiated with the Broker (Arthur J Gallagher) to agree to provide brokerage services on a fee-for-services basis. All quotes are net of Commissions, the fee for service proposed is \$150,000. I recommend that the Court agrees to this arrangement, this would represent a brokerage compensation savings of \$38,665.

Expiring premium is \$1,827,634 and the renewal premium is \$1,774,465.

Given the County's' growth and increased exposures, this is a good renewal proposal recommended by Risk Management. If you should have any questions, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read 'Wyatt Scott', with a large, stylized flourish extending to the right.

Wyatt Scott  
Director of Risk Management

# PREMIER PUBLIC ENTITY PACKAGE & LEXINGTON INSURANCE EXCESS PROPERTY INSURANCE RENEWAL

POLICY YEAR 4/1/2014-4/1/2015

2012 Term Annualized (term Renewal 4/1/14 to 4/1/15

Change

## Coverage/Exposure Summary

18 mos.)

|                                    |    |                      |      |      |      |                |    |              |
|------------------------------------|----|----------------------|------|------|------|----------------|----|--------------|
| Premier Public Entity Package      | \$ | 828,688.00           | \$   | Incl | Incl | 704,162.00     | \$ | (124,526.00) |
| Excess Public Officials' Liability |    | Included in Brit Pkg |      | Incl | Incl |                |    |              |
| Excess Liability                   |    | Included in Brit Pkg |      |      |      | 754            |    | 3%           |
| Basis: Law Enforcement Personnel   |    |                      | 730  |      |      | 940            |    | -30%         |
| Basis: County Vehicles             |    |                      | 1340 |      |      |                |    | 5%           |
| Basis: Payroll                     | \$ | 103,020,366.00       | \$   |      |      | 107,678,195.00 |    |              |
| Excess Property excluded TRIA      | \$ | 913,409.00           | \$   |      |      | 844,275.00     | \$ | (69,134.00)  |
| Boiler & Machinery                 |    |                      |      |      |      |                |    | 2%           |
| Basis: Insurable Values            | \$ | 547,993,061.00       | \$   |      |      | 558,198,922.00 |    | -2%          |
| Rate                               |    | 0.167                |      |      |      | 0.164          |    |              |
| Sub-Total                          | \$ | 1,742,097.00         | \$   |      |      | 1,548,437.00   | \$ | (193,660.00) |
| Surplus Lines Taxes 4.91%          | \$ | 85,536.96            | \$   |      |      | 76,028.26      | \$ | (9,508.70)   |
| Broker Fee 4/1/14-4/1/15           |    | Included in Premiums |      |      |      | 150,000.00     | \$ | 150,000.00   |
| Total Fixed Costs                  | \$ | 1,827,633.96         | \$   |      |      | 1,774,465.26   | \$ | (53,168.70)  |