

FINANCE AND LONG RANGE BUDGET PLANNING COMMITTEE
MINUTES – MEETING OF DECEMBER 15, 2010

In attendance: Committee Chair Thomas Reinboth, members Michael Hartline and Mark Miller and Board member Cyndi Mueller.

Staff: Dr. Jenny Foight-Cressman, William R. Gretton III and Vic Lasher.

Public: David Angle.

Press: Jennifer Mohan.

Call to Order:

Mr. Reinboth called the meeting to order at 7:00 p.m. and introduced the members of the Board. He explained that the intent of the meeting was to interview brokers to establish an owner controlled insurance program (OCIP) in anticipation of cost-savings related to the construction of the two elementary school projects.

Mr. Angle explained that Graham had been asked to present and that after a brief presentation questions from the Board would be addressed. Mr. Reinboth preferred to hear the presentation first and Mr. Angle indicated he would check that the eleven (11) pre-determined questions were addressed in the presentation or the follow-up questions.

The Graham Company

Mr. Mitchell, a principal of the Graham Company, explained his role in the process with the goal running a safe project with all insurers covered under the same program. He reviewed the credentials of the Graham Company and their focus on fewer clients versus a large volume of clients. Ninety percent of their staff are dedicated to service and support with an emphasis on safety and claims people to keep the claims to a minimum and at a lower cost. The company has focused on construction for over 50 years.

Mr. Morrin stated that there are three major thrusts to a successful OCIP:

1. Establishing a broad-based risk management and insurance program. Not all programs are the same and the broker needs to understand the market to extract the best overall program for the client.
2. An emphasis on safety to limit the claims. Graham has an eight (8) person safety group and each project has a consultant to work with the CM and the contractors to assure safety.
3. When a claim does occur, the severity of the claim is addressed with the goal of returning the employee to work. He indicated there will be claims, but the emphasis is to manage the claim and minimize the loss.

Mr. Morrin addressed the cost savings through up-front costs as well as self-management of claims. He indicated that this project would have basic “pay-in” costs where savings would be minimal, but the control of the “retention” level would be the greatest potential savings. Another savings is realized by avoiding the complicated issues of claims issues if the contractors have separate insurance carriers. Mr. Morrin explained that although this project was comparatively small, he felt that the project was worth pursuing even though possibly only two carriers would be interested. Typically the savings is estimated at 1-1.5% whereas on this project the savings would be estimated at .5% of the cost of the project. Mr. Angle reviewed the potential areas of cost and the potential of savings from the retention or lower cost of bulk insurance. Mr. Morrin reported that contractors typically lower their bid costs by about 3% when they submit a bid without insurance.

Mr. Mitchell provided an example of the program and emphasized that the savings is derived from not utilizing the reserves. Mr. Miller questioned whether this method was the direct quote of bidding versus the bid-deduct method which the contractor would be asked to bid with and without their insurance. Mr. Morrin acknowledged that this was the alt-deduct method of which they are familiar and would recommend a lower retention value because of the relatively small size of the project.

Mr. Reinboth asked how the firm identified the safety factors utilized by contractors. Mr. Morrin responded that the contractors would provide their experience mod-factor and may place a maximum mod-factor in their bid. They also review the contractor's safety program and if a program was in place.

Mr. Hartline asked about the Graham safety program. Mr. Morrin responded that a Safety Consultant would be on-site at least once per week at each job site with a follow-up report on their observance along with initial meetings with the contractors regarding safety measures. The firm works with each contractor on safety programs and issues. Mr. Hartline asked about the WTHS safety experience. Mr. Angle responded that he was aware of only one claim in the last eighteen months. Mr. Hartline asked about Reynolds program concerning safety. Mr. Angle answered that Reynolds has a program for their workers but requires contractors to provide their own safety management.

Ms. Mueller asked Mr. Morrin if there was any association between their company and members of the School Board, the CM or the Architect. Mr. Morrin responded that there was no current association with any of these entities.

Mr. Miller questioned the elements of the fee. Mr. Mitchell indicated that new companies needed to generate a minimum of \$50,000 of business. Mr. Miller asked about the negotiations with the carriers. Mr. Morrin explained the negotiations with the firms, with the safety and claims handling being as important as the savings on the premium. He explained the components of the proposed fee of \$315,000 that included the claims administration and safety monitoring. Mr. Miller asked if any components were offered by the insurer. Mr. Morrin indicated that the fee is paid by the District and the firm is net of commission on all policies except the builders risk.

Mr. Gretton asked how the firm would handle a contractor that may not have a favorable safety record. Mr. Morrin indicated they would work with the prime safety contractor to address issues with smaller, less sophisticated contractors before they come onto the work site.

Mr. Miller indicated that the District may want to look at a higher fee company if the insurance cost would be lower and the overall package would be beneficial to the District. He asked whether the firm would be interested in "sharing" the brokerage if different brokers received varying costs. Mr. Morrin responded that his advice would be to appoint the broker that meets the District needs and not the share the responsibility. Mr. Mitchell noted that the carrier may not respond if more than one broker is involved and the quotes may be significantly different. He indicated they would need full access to the market and be the only broker of record for the project.

Mr. Angle asked about the timeline for securing information for the quotes. Mr. Morrin responded that the information could be provided in two weeks and that the current timeline is doable.

Willis

Mr. Reinboth introduced the Board and Administration and called upon representatives to provide introductions.

Mr. Reid Sandner, Vice President introduced Ms. Carolyn Farino who is the on-site Coordinator of the OCIP for Willis in this region along with Mr. Joseph Harwanko who provides safety and on-site support. Ms. Farino recommended the dedicated “wrap-up” team approach and explained the on-line software they have available to access the current financial information and payroll tracking that is necessary for the program. She noted that with the size of the project there may not be savings but the benefits would include completed operations coverage for a twelve (12) year period beyond the completion of the project and the protection in the event that a contractor does not remain in business.

Mr. Angle asked about the costs of the program and the credits. Ms. Farino explained the insurance premiums and the deductibles. She emphasized the need to have a broker that knows how to get deducts by accounting for all of the payroll information and track the experience levels. Ms. Farino indicated that the method the Board was using would allow for a projection of savings in a very short time after the bid results were known.

Mr. Miller noted that a decision will be made on the cost plus the fee and asked how the fee was calculated. Ms. Farino responded that the firm had calculated all of the contacts with contractors and the safety initiatives at a rate of once per month. She indicated that the carrier would also have an inspector at least once per month and that if the safety inspection was taken out the fee would be reduced. Willis would formulate a manual immediately and inform the contractors and all involved of the program and their requirements.

Ms. Farino indicated that they would be seeking bids from three (3) insurers of the eight (8) that would write an OCIP, but only three have indicated an interest in providing a quote for this process. Mr. Miller asked if the PSBA OCIP would be involved in this quote and Ms. Farino responded that this branch of Willis is totally separate from the Willis, Radnor office.

Mr. Gretton asked whether the size of the project would prevent them from securing a beneficial insurance quote if one or more of the contractors had adverse experience. Ms. Farino indicated that they would include all of the contractors and they would work closely with those needing help with a safety and insurance program. Mr. Miller asked about the timing of the recommendation, and Ms. Farino indicated they could have information available and a submission in 48 hours.

Mr. Miller asked about the safety program coordinated by Willis. Ms. Farino talked about fall protection at six feet, drug-test requirements, return-to-work and a local site for re-hab as being the major recommendations. She noted that a panel of approved medical care providers would be communicated to all contractors. Mr. Hartline asked about the site-safety team. Ms. Farino explained the local team of professionals and what they would address, including pre-construction meetings with administration and contractors.

Ms. Mueller asked whether the company had any business with Board Members, the Architect or Reynolds Construction. Ms. Farino answered that they did not.

Mr. Angle clarified the engagement and Ms. Farino indicated that they understood the risk and the process. Ms. Mueller asked if Willis had done significant business with the three potential providers. Ms. Farino responded that Ace would be the primary, but the other two have been

very responsive and Willis has had significant business in advance. Ms. Mueller clarified that group referred to by Ms. Farino was the local Willis group and not PSBA or other carriers.

Mr. Miller indicated that the Board should be considering one of the two presenters. After discussion centering on the weekly safety inspections offered by and the information that Mr. Miller had researched on their web-site, he preferred the Graham Group. Mr. Hartline asked if Reynolds had dealt with either of the groups. Mr. Angle indicated that Reynolds had dealt with each firm and he was not aware of any difference in services. Ms. Mueller emphasized the approach to safety and indicated that Graham had provided more emphasis on that as it relates to long-term savings. Mr. Reinboth emphasized the savings related to safety and random drug-testing throughout the project. Mr. Hartline noted that the safety site coordination was emphasized along with the working with the small contractors. He recommended that Mr. Angle review the proposals with the Solicitor in order to assure the approvals.

Mr. Faust noted the safety proposal of Graham and asked how the stop-loss would be determined. Mr. Miller indicated this should be a discussion between the broker and representatives of the District. Mr. Angle indicated that the District should assume that the deductible would be used and if any remains, it becomes savings to the District.

It was moved by Mr. Miller and seconded by Mr. Hartline that the Committee recommend to the full Board that The Graham Company be offered the opportunity to pursue an OCIP on behalf of the Centennial School District. Motion was carried 3-0-0.

Mr. Reinboth suggested that he survey other Board Members to discuss the approval in order to provide Graham with the opportunity to begin gathering data for the proposal. Mr. Miller suggested that Mr. Angle contact Graham and ask them to begin the background work with the understanding that should the full Board disagree with this recommendation, that they would be performing this work at their own expense.

There being no further discussion, it was moved by Mr. Hartline and seconded by Mr. Miller to adjourn the meeting at 8:50 p.m. Motion carried unanimously.

Respectfully submitted,

William R. Gretton III
Business Administrator