**INSURANCE ADVISORY BOARD MINUTES**
**City of Fort Lauderdale**
**100 North Andrews Avenue**
**8th Floor Conference Room**
**Thursday, May 18, 2006 – 8:00 a.m.**

| Board Members | Meeting Attendance | (1/06 to 12/06) Cumulative Attendance | |
|---|---|---|---|
| Joseph Cobo, Chair | P | P-4 | A-0 |
| Mark Schwartz, Vice Chair | P | P-4 | A-0 |
| Randy Swensen | P | P-3 | A-1 |
| Ted Hess | A | P-3 | A-1 |
| Christopher Prestera | P | P-3 | A-1 |
| Roger Bond | A | P-3 | A-1 |
| Joe Piechura, Sr. | P | P-3 | A-0 |

Staff and Guest

Daniel Jilek, Risk Manager
Marilyn Mullen, Employee Benefits Coordinator
Dave Fortune, Fortune Consulting
Betty Burrell – Finance Director

1. Roll Call

The meeting was called to order by Vice Chair Randy Swensen at 8:07 a.m.

2. Approval of Minutes of the April 20, 2006 Meeting

Motion made by Mr. Piechura and seconded by Mr. Hess to approve the minutes of the April 20, 2006 Board Meeting. Motion passed unanimously.

3. Review of Casualty Insurance & Worker's Compensation

Daniel Jilek, Risk Manager, stated that a printout had been distributed of the Worker's Compensation loss incurred in the last month. None of the losses were severe in nature. Vice Chair Swensen asked if the report was to be broken down by department. Mr. Jilek confirmed and stated that the nature of the injury was also to be listed, but he did not know why it had changed. A more detailed breakdown would be provided next time. He further stated that money was being spent faster than they liked, but old cases were also being settled.

Vice Chair Swensen asked if it would be possible to receive a year-to-date figure also. Mr. Jilek confirmed.

4. Report on Health/Benefit Program

Marilyn Mullen, Employee Benefits Coordinator, stated that there had been a meeting with the Union representation which would be followed by another next Wednesday, and they were still attempting to meet with the Teamsters Union in order to review the plan and receive input and confirmation regarding the objectives and scope of the plan. She advised that they were still working on the voluntary benefits RFP revision, along with the revision on the Group Life, which would be distributed in the summer and awarded in the Fall. The plan would begin in January.

5. Presentation on Changes in League of Florida Cities OCIP Program

Pete Witschen stated the program was established and there were a number of agencies in it, and close to a couple million dollars worth of construction in the program. He stated that Mike Madden was the Director of Risk Management Services for Florida League of Cities, would distribute some information and provide an updated presentation of the program.

Mike Madden stated the program offers savings on the cost of insurance for major projects and to provide better safety on those projects, as well as providing better coverage for the municipality and the workers. Everyone would be held in an equitable situation and no one would be treated unfairly. He continued stating that the traditional contractor's insurance was a fragmented process in which they supplied all their own insurance and used their own agents. This was not an effective purchasing mechanism. They were attempting to consolidate that purchasing mechanism into an owner controlled insurance program, and then that concept would be used as a pulley mechanism in the master control insurance program which would provide additional plans and benefits.

Mr. Madden further stated that OCEPS or CCEPS which is the counter-image of an OCIP was a contractor's controlled insurance program, but the contractor would maintain the profit and control the program versus the owner. This has been used since the 1980's and produced savings anywhere from one-half percent to 4% of construction costs, or in terms of the cost of the insurance for the project saved between 35% to 50% of the overall costs.

Mr. Madden continued stating that that OCIP benefits consolidated the insurance program and brought about more comprehensive, safety, and loss control since there was only one entity involved. All employees are enrolled and put through an orientation on safety loss control at the beginning. All information was put into a consolidated data base and replaces the contractor's insurance requirements for worker's compensation, general liability, and excess liability while they are on site. The limits of the policy were not split between other projects that the contractor might be working on, and also brought with it higher limits of coverage. This program had a $25 Million limit and eliminated cross litigation. It was also loss sensitive which meant it was related to your experience as to what the safety and loss control experience was on the site. Smaller contractors would have the opportunity to participate in the program.

Mr. Madden explained that the typical coverages were worker's compensation, general liability, completed operations, excess liability coverage, builder's risk, environmental liability, along with professional liability. Typically the only coverages that were underwritten through OCIP were the first three, and the others were part of it but were controlled through a broker-driven process.

Mr. Madden stated that there had been a legal opinion that prevented local governments from getting into these types of programs, and therefore, few cities were involved in the past such as Jacksonville and Broward County Airport. It was believed that the opinion was flawed, but in the 2004 Legislative Session there was a law passed which authorized such programs. Therefore, the League of Cities got involved and attempted to put together an insurance program similar to others and had researched the problems that had been hampering such programs. One of the problems in the past was that subcontractors had taken advantage of the process through a CCIP and part of that was that it was a profit center for them, and they viewed the program as an opportunity to make money versus another area.

Mr. Madden explained that construction project value requirements for OCIPs were normally only for large projects over $100 Million, but they wanted to bring that down so smaller local governments and projects would qualify, and thereby projects as small as $5 Million could qualify. Poor accountability was another issue in connection with record keeping, as well as having an accurate way of extracting the insurance costs out of the bids, and therefore, they spent a lot of time with the accounting and purchasing process to make sure there would be an accurate method for determining costs.

Mr. Madden further stated that conflicts of interest occur when the broker is the administrator of the program and responsible for the safety and loss control, and sometimes they were the same group placing the insurance for the contractors. He stated that their broker only placed the coverage for the program and were not involved in the administration of it. Also, their broker never has accepted contingent commissions.

Mr. Madden stated that a survey was done and a program was bid to the largest four carriers in the US and Ace was awarded the program based on providing the lowest price. They have a primary carrier in the program and AIG is excess over them. An interlocal agreement was completed with Palm Beach County Schools, South Florida Water Management District, Pembroke Pines, and Cape Coral, which established the trust they operated under.

Mr. Madden proceeded to show the structure of the program, and stated that the Florida League of Cities was the sponsoring agency and administrator of the program. They operate through a trust and once someone becomes a member of the program, they sign a participation agreement. The insurance is then provided for the contractors that come onto the site. The coverages provided are compensation, statutory limits, employer's liability of $1 Million, general with $2 Million per occurrence, $4 Million for general aggregate, and excess liability of $25 Million per occurrence. In addition, they can also place builder's risk, professional liability and environmental.

Mr. Madden further stated that the additional features included the purchasing power for all the programs, it was a turn-key operation, broad dedicated coverage which could be used for single or multiple projects, centralized administration, extensive financial reporting, full documentation, safety manuals, operational and administrative support materials, and full implementation.

Mr. Madden continued stating that the parts of the program included not only purchasing the insurance, but program administration, procurement, contract administration, safety loss control prevention, financial management, implementation, and communication. He stated that the members' benefits were that it was a turn-key operation, a voluntary program, did not require a loss in savings or allocation based on the experience of the projects, was fully insured and fully funded, non-accessible and guaranteed a portion of savings up front. He stated that there was significant lower unit pricing, simplified administration, simplified procurement, no conflicts of interest, no contingent compensation, and they used a highly qualified team.

Mr. Madden proceeded to show a copy of the financial statement explaining the savings. He explained that the first column showed the cost of traditional insurance for a $306 Million project, along with an estimated payroll for such a project, the cost of the worker's compensation premium, the general liability premium, and the overhead for the contractor. The bottom of the column showed there was $11,293,000 representing about 3.68% of the overall construction cost for the project. The next column showed the project size and payrolls the same, along with the cost of the program. The total dollar cost was $9,837,000 which represents 3.21% of the cost. The third column shows what would be considered as a normal experience in these types of programs and the anticipated savings. These would total $7,716,000 which represents about 2.51% of the overall construction value. The final column shows if there were no claims the minimum cost or maximum savings.

Mr. Madden explained that the League of Cities paid them an administrative fee.

Mr. Madden proceeded to show a graphical representation of the information discussed. He explained that the green line showed the traditional costs, the blue line was the maximum cost and minimum savings, the variable area was what could be anticipated, and the red line was the minimum cost and maximum savings. He further stated that the remaining information addressed the enrollment.

Mr. Madden further stated that he attached the Attorney General's opinion sought by the City Attorney from the City of St. Petersburg in regard to the question as to what was defined as a project. He explained that a city-wide water/sewer project would be considered for inclusion under these types of insurance programs. The last tab contains frequently asked questions.

Mr. Witschen stated that the OCIP has applicability beyond WaterWorks 2011. He stated that previously a question had been raised regarding guaranteed savings, and the project has now been affirmed and there were hard rates. Another question involved voluntary participation and if they choose to include one project would all projects have to be included. The answer was no and it would be up to them to decide what projects were included.

Mr. Madden clarified that once a project was in, it had to remain in.

It was asked who would do the contractor qualifications. The purchasing department would still follow their normal process.

It was asked how the fixed cost was brought down so the program would work at $5 Million and below. Mr. Madden stated they brought the carriers in and safety and loss control people would be on site. He added that Ace has committed through 2008 and all contracts and pricing were in place.

Originally when the Court decision came out in 2004, there was a minimum threshold. Mr. Madden stated that it was at $75 Million, but now it could be brought down to $5 Million. They preferred that the aggregate projects be at $75 Million.

It was asked how existing projects, such as WaterWorks 2011, would be transitioned into the program. Mr. Madden stated that as long as a contract has not been let or approved, they can work with the contractors and bring them in at that point.

Mr. Witschen stated that they had met with Paul Bohlander, and preferably the process would involve including language to address the projects.

It was asked what type of auditing was done with respect to the projects in regard to payroll. Mr. Madden explained that they did a financial analysis of the program and tracked the payroll on a monthly basis.

It was asked if there were sample copies of the financial reports for the Board's review. Mr. Madden stated that such information would be provided.

It was asked if there was an SIR involved. Mr. Madden confirmed, but stated that it was fully funded and had a $500,000 deductible which was held by the carriers. He added that their accounting system was tried and proven, and it had never failed. The bonding was the same, and the only areas which were scrutinized were worker's compensation, excess, and general liability.

Motion made by Ted Hess and seconded by Joe Piechura to move forward with the OCIP program and that additional data be gathered as directed, and then forward it to the City Commission. Board unanimously approved.

6. <u>Schedule June Meeting</u>

The next meeting would be held on June 15, 2006 at 8:00 a.m.

Motion made by Mr. Piechura and seconded by Mr. Prestera to adjourn the meeting.

There being no other business to come before the Board, the meeting was adjourned at approximately 8:27 a.m.