

**Finance Committee**  
**March 23, 2006 Regular Meeting**

**Minutes**

Members Present: Andrew Sullivan, Committee Chairman  
Raymond O'Brien, Committee Vice-Chairman  
Benson Cohn  
James Francis  
Edna Karanian  
Mark Lauretti  
Theodore Martland

CRRA Staff Present: Jim Bolduc, Chief Financial Officer  
Bettina Bronisz, Director of Finance & Assistant Treasurer  
Robert Constable, Controller  
Lynn Martin, Risk Manager  
Donna Tracy, Executive Assistant  
Kristen Greig, Secretary to the Board/Paralegal

Also Present: Lisa Janney and John Raymond of Aon Risk Services

Chairman Sullivan called the meeting to order at 9:35 a.m. and noted that there was a quorum.

Chairman Sullivan requested that everyone stand for the Pledge of Allegiance whereupon the Pledge was recited.

**1. Approval of Minutes of the February 9, 2006 Finance Committee Meeting**

Chairman Sullivan requested a motion to accept the minutes of the February 9, 2006 Finance Committee meeting. The motion was made by Director Cohn and seconded by Director O'Brien.

The motion previously made and seconded was approved unanimously.

**2. Insurance Discussion**

Mr. Bolduc explained that the transition to CRRA's new broker, Aon, was smooth. Mr. Bolduc said that there was a 9 percent premium increase over last year for the All Risk Property Insurance policy, which is CRRA's largest policy. Mr. Bolduc stated that there were two factors that resulted in the increase: the first was the actual rate increase which was approximately 5% and the remainder was due to the increased valuation. Mr. Bolduc explained that the true rate increase of approximately 5% was less than expected.

Mr. Bolduc pointed out that, because the policies were not coterminous with the fiscal year, a calculation was provided to annualize the actual premiums. Mr. Bolduc noted that the premiums are well within the budget.

Ms. Martin introduced Ms. Janney and Mr. Raymond of Aon. A Property Renewal Proposal was distributed and Ms. Martin explained that this proposal contains more detail than the Finance Committee package.

Regarding the All Risk Property insurance, Mr. Raymond informed the Committee that CRRA was very favorably accepted in the market because this area is not exposed to natural catastrophes, such as windstorms. Mr. Raymond stated that there is a \$50,000 deductible, except for some of the larger facilities, which have a deductible of \$250,000. Mr. Raymond explained that the coverage for extra expenses and business interruption had a time-based deductible of 45 days. Director O'Brien asked if CRRA has an estimate of what those expenses would be for 45 days. Mr. Bolduc responded that the expenses would be dependant upon the event. Chairman Sullivan said that all CRRA needs to know is that, if there is an interruption that results in incremental costs, that those incremental costs would be covered. Director O'Brien said that CRRA should have some estimate of what those costs would be for the 45 days before insurance coverage would begin. Chairman Sullivan said that it would be difficult to project what the costs would be without knowing what the event was and where waste would be diverted in the case of an incident. Director O'Brien noted that the budget for the next fiscal year would be tight due to the decrease in the tip fee and said that if the costs for the 45 days were significant, there was not enough money in the budget to cover such significant costs. Chairman Sullivan asked if CRRA has ever had to use the business interruption coverage. Ms. Martin responded in the negative. Chairman Sullivan said that he was comfortable with this coverage because the chance of actually facing such a scenario was so slim.

Director O'Brien stated that there should also be a contingency plan in place in case of a major interruption. Director Lauretti stated that CRRA already has a plan because the plant can be down on any given day, so CRRA would follow the contingency plans already in place. Chairman Sullivan said that if there needs to be a contingency plan this matter becomes a budget issue because a reserve would have to be set up. There was a lengthy discussion regarding possible expenses and losses that would occur in the case of a major interruption.

Director Francis asked how much this coverage costs in relation to how much was budgeted. Mr. Bolduc referred the Committee to the first page behind Tab E in the package, which gives a detailed analysis of the costs and budgets for each policy.

Director Martland asked how CRRA decided how to allocate the percentages of coverage by insurer. Mr. Raymond explained that none of the insurers are capable of offering 100% coverage so each insurer provides CRRA with what percentage of the total that they are willing to commit to. Mr. Raymond stated that CRRA had a significant amount of interest from insurers and ended up with 124% coverage. To narrow the coverage to 100%, incumbent underwriters, or those who have provided coverage in the past, were given the most that they were willing to offer and the remaining percentage was filled in with new insurers. Mr. Raymond noted that the terms and conditions are consistent for all insurers. Mr. Raymond added that, when possible, he likes to keep one or two of the interested companies out of the program to keep the program competitive and to control costs.

Director O'Brien asked if any other insurers offered engineering services besides Zurich. Mr. Raymond responded in the negative and said that most insurers preferred not to take the responsibility for engineering services. Ms. Martin noted that Zurich did not increase the price for engineering services from last year. There was a lengthy discussion regarding the value of engineering services versus the cost.

Mr. Bolduc pointed out that several months ago there was a discussion regarding testing the European markets to see if there was any interest. Mr. Bolduc explained that CRRA did get an expression of interest from London, but the insurer was not chosen because they did not bid within the cost parameters. Mr. Bolduc said that it was good to see that CRRA had some non-domestic interest in providing insurance to us.

Mr. Bolduc referred the Committee to Tab B regarding the public officials' insurance. Ms. Janney presented the Committee with a detailed proposal. Ms. Janney explained that the public officials' market was much more stable than the property market, but said that there were very few insurers willing to underwrite a public entity such as CRRA. Ms. Janney informed the Committee that AIG is the incumbent and came back with a flat price for the \$5,000,000 limit. Ms. Janney stated that there would be no change in the premium for the same coverage and deductible as last year. Ms. Janney said that ACE also expressed an interest and offered aggressive prices for a \$5,000,000 and \$10,000,000 limit. Mr. Janney explained that the difference between the two carriers was that AIG's limit includes damages, but in addition, covers unlimited defense costs outside of the coverage limit. These defense costs would not erode the limit whereas ACE covers defense costs but only within the limit of coverage and the defense costs would erode that limit. Ms. Janney said that ACE is willing to include some other smaller coverages, but the significant consideration should be the defense costs.

Ms. Janney said that it was difficult to make a recommendation because both carriers were very good. She said that her suggestion to clients is always to buy the highest limit that the company can afford. Ms. Janney noted that CRRA has not gone over its \$5,000,000 limit and defense costs have not been significant and said that a \$5,000,000 might be appropriate.

Mr. Bolduc said that the reason this decision was difficult was because AIG is offering a limit of \$5,000,000 with unlimited defense costs for a premium of \$263,000. ACE is offering a \$10,000,000 limit for nearly the same premium, but that does not include unlimited defense costs. Mr. Bolduc said that a higher coverage limit could provide a higher target if lawsuits were filed.

Mr. Bolduc added that the Committee may want to consider how well AIG has responded to the numerous lawsuits that have been filed in the past and remember that ACE is an unknown to CRRA. Ms. Martin noted that not all insurers are as cooperative and responsive as AIG has been.

Director Martland said that, as a public entity, he did not see how CRRA could justify taking the highest bid without a good reason. Director Martland said that if CRRA is concerned with how much defense would cost he would rather choose the \$10,000,000 limit and CRRA would still be saving money. Director Cohn stated that the insurers cannot be evaluated on a purely cost basis because the services are not comparable in terms of what the insurers are proposing to provide. There was a brief discussion regarding the chances of defense costs and

legal costs exceeding the \$10,000,000 limit with ACE. Ms. Janney suggested looking into CRRA's history regarding legal fees and potential issues on the horizon so the Committee could get a comfort level of how much coverage the organization needs.

A lengthy discussion ensued regarding why ACE was willing to offer a \$10,000,000 policy for a lower premium than AIG's \$5,000,000 policy.

Chairman Sullivan suggested making a recommendation to the Board with two options and, in the meantime, an analysis could be done on the history of legal fees for public officials' claims.

Mr. Bolduc referred the Committee to Tab C regarding the Commercial Crime insurance. Mr. Bolduc informed the Committee that there was a slight increase in the premium from last year and noted that the premium was still lower than the budgeted amount. Ms. Janney explained that this policy is for acts committed by employees and the policy covers the entity as well as the welfare of the retirement plan. Ms. Janney said that Aon is recommending the incumbent carrier, Travelers, which is providing a renewal quote with a slight increase based on the number of employees.

Ms. Janney informed the Committee that this was a \$3,000,000 policy with a \$100,000 deductible.

Director O'Brien stated that most of CRRA's new employees were scale enforcement specialists and asked if that was the reason the number of employees was significant. Ms. Janney responded that Crime policies are rated on the number of employees regardless of their responsibilities.

Regarding Tab D, the Fiduciary Liability policy, Mr. Bolduc explained that this policy does not cover employees because they are covered by the Errors and Omissions policy. Mr. Bolduc stated that the Fiduciary Liability policy covers the funds and activities for the corporation. Ms. Janney added that there is a paragraph on page 7 of her proposal that describes who is covered under this policy and listed several examples.

Mr. Janney stated that this policy has a \$3,000,000 limit with a \$5,000 deductible per claim. Ms. Janney noted that there were three bidders in addition to the incumbent, St. Paul Travelers. Ms. Janney said that even though Travelers was priced a bit higher than Chubb, Aon was recommending Travelers because they are offering HIPPA violation coverage and punitive damages are covered within the limit of liability, which Chubb did not offer.

Director O'Brien asked what accounts for the 67% increase in assets referred to on page 8 of Ms. Janney's proposal. Ms. Janney responded that the 67% increase represented an increase in CRRA retirement plan assets. Mr. Bolduc added that more employees were taking part in the plan and Chairman Sullivan stated that figure would also be dependent upon the market value of the plan assets. Chairman Sullivan stated that he would like to know the current market value of the plan.

Chairman Sullivan asked if CRRA has ever had a claim against the Fiduciary Liability insurance policy. Ms. Martin responded that there had not been any claims against the Fiduciary Liability or Commercial Crime policies.

Chairman Sullivan asked how many employees participate in the plan and if there were any former employees that still have funds in the plan. Mr. Bolduc responded that almost 100% of employees participate and approximately twenty former employees still have funds in the plan.

Director Martland noted that Ms. Janney's presentation lists Travelers' premium for this policy as \$4,537, but the Executive Summary shows the premium as \$3,998. Ms. Janney explained that Travelers lowered their premium at the last minute and the \$3,998 is the correct figure.

### **3. Review and Recommend for Board Approval Renewal of Public Officials' Insurance**

Chairman Sullivan requested a motion regarding the above-captioned matter. Director O'Brien made the following motion:

**RESOLVED:** That CRRA's Public Officials and Employees Liability insurance be purchased from American International Specialty Lines Company (AISLIC) with a \$5,000,000 limit, \$250,000 deductible for the period 4/1/06 – 4/1/07 for a premium of \$263,202 OR, dependent upon further analysis, that CRRA's Public Officials and Employees Liability insurance be purchased from ACE USA at a \$10,000,000 limit, \$250,000 deductible for the period 4/1/06 – 4/1/07 for a premium of \$239,210 as discussed at this meeting.

Director Cohn seconded the motion.

The motion previously made and seconded was approved unanimously.

### **4. Review and Recommend for Board Approval Renewal of Commercial Crime Insurance**

Chairman Sullivan requested a motion regarding the above-captioned matter. Director O'Brien made the following motion:

**RESOLVED:** That CRRA's \$3,000,000 Commercial Crime insurance be purchased from St. Paul Travelers for a premium of \$3,311 for the period 4/1/06 – 4/1/07 as discussed at this meeting.

Director Cohn seconded the motion.

The motion previously made and seconded was approved unanimously.

**5. Review and Recommend for Board Approval Renewal of Fiduciary Liability Insurance**

Chairman Sullivan requested a motion regarding the above-captioned matter. Director O'Brien made the following motion:

**RESOLVED:** That CRRA's \$3,000,000 Fiduciary Liability insurance be purchased for a premium of \$3,998 from St. Paul Travelers for the term 4/1/06 – 4/1/07, as discussed at this meeting.

Director Cohn seconded the motion.

The motion previously made and seconded was approved unanimously.

**6. Review and Recommend for Board Approval Renewal of All Risk Property Insurance**

Chairman Sullivan requested a motion regarding the above-captioned matter. Director O'Brien made the following motion:

**RESOLVED:** That CRRA's \$327 million All Risk Property Insurance be purchased for a premium of \$730,743 from the following five insurers with their quota shares as indicated: Zurich 35%; XL 28%; ACE 16%; Starr Tech 11% and Arch 10%; and

**FURTHER RESOLVED:** That CRRA purchase terrorism coverage for a premium of \$19,000; and

**FURTHER RESOLVED:** That CRRA obtain engineering services from Zurich for a premium of \$6,600.

The overall premium for \$327 million of property insurance, including business interruption and extra expense insurance, engineering and terrorism coverage is \$756,343.

Director Francis seconded the motion.

Director O'Brien noted that this policy includes terrorism coverage and engineering services.

The motion previously made and seconded was approved unanimously.

Chairman Sullivan noted that the aggregate premiums were below budget and not significantly higher than last year.

**7. Supplemental Information**

Regarding the Source and Use of Funds Analysis, Director O'Brien asked why there were such fluctuations in the interest and said he would like a column added that shows the interest

rate for each month. Ms. Bronisz responded that principal has to be paid back in equal amounts every month and the interest has a monthly variable rate. Ms. Bronisz stated that she would add a column to show what the interest rate is for each month.

Director O'Brien suggested changing the language on the charts in the Variance Report from "Year-to-Date Excess Revenues" to "Year-to-Date Revenues versus Expenditures." Director O'Brien stated that, due to the fact that any surpluses would be applied to the Fiscal Year 2007 budgets, those revenues were not actually excess; they are actually the difference between expenditures and revenues.

Regarding the 2001/2002 State Auditors Recommendation Status Report behind Tab 4, Director O'Brien noted that on page 2 the report states that the monitoring of outside consultants is completed. Director O'Brien stated that CRRA is required to change expenditures on outside consultants based on the number of employees, but the report does not show that CRRA is in compliance with the legislation. Mr. Bolduc explained that when CRRA creates certain positions that will replace outside consultants, the organization demonstrates the costs savings. Director O'Brien said that the response says that CRRA has a tracking method, but fails to state that CRRA is in compliance with the requirement. Director Karanian said that CRRA could better describe the process in place and suggested adding that there is a cost-benefit analysis performed prior to creating new positions in the "Authority Implementation" column.

Referring to item number 10 of the 2003/2004 State Auditors Recommendation Status Report behind Tab 4, Director O'Brien stated that he felt that any event of this nature should be reported to the Finance Committee along with a recommendation of whether or not the event is reportable. Mr. Bolduc gave a brief background on this issue and concluded that CRRA is working on a policy to satisfy this recommendation in a consistent manner, but feels that events that are customary and normal are not reportable. Mr. Bolduc said that CRRA is attempting to ensure that any reportable events are handled and filed quickly. Director O'Brien stated that he would like the Finance Committee to be made aware of any events that fall under this reporting requirement.

## **8. Executive Session**

Chairman Sullivan requested a motion to enter into Executive Session to discuss pending litigation. The motion was made by Director Martland and seconded by Director Francis. The motion previously made and seconded was approved unanimously. Chairman Sullivan requested that the following people remain for the Executive Session, in addition to the Committee members:

Mr. Bolduc  
Attorney Hunt

The Executive Session commenced at 11:03 a.m. and concluded at 11:45 a.m.

The meeting reconvened at 11:45 a.m. and Chairman Sullivan noted that no votes were taken during Executive Session.

**ADJOURNMENT**

Chairman Sullivan requested a motion to adjourn the meeting. The motion made by Director Cohn and seconded by Director O'Brien was passed unanimously.

The meeting was adjourned at 11:45 a.m.

Respectfully submitted,

Kristen B. Greig  
Secretary to the Board/Paralegal