

Finance Committee
March 22, 2007 Regular Meeting

Minutes

Members Present: Michael Pace, Board Chairman
James Francis, Committee Chairman
Raymond O'Brien, Committee Vice-Chairman
Edna Karanian (present from 9:34 a.m. until 11:00 a.m.)
Mark Laretti (present by phone from 9:45 a.m. until 10:45 a.m.)
Theodore Martland

Other Directors Present:

Linda Savitsky

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

Also Present: Gerard R. McStravick, AON Risk Services, Inc.
Shirley E. Flynn, AON Risk Services, Inc.
Michael Perron, AON Risk Services, Inc.

Chairman Francis called the meeting to order at 9:32 a.m. and noted that there was a quorum.

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

1. Approval of Minutes of the February 15, 2007 Finance Committee Meeting

Chairman Francis requested a motion to accept the minutes of the February 15, 2007 Finance Committee meeting. The motion was made by Vice-Chairman O'Brien and seconded by Director Martland.

Director O'Brien asked if there was any update on the kilowatt hour rate that was reduced in the budget. Mr. Constable responded that there has been no change and the projection remains at \$0.0589 for the first 250 million kilowatts.

The minutes were approved. Director Martland abstained.

2. Review and Recommend for Board Approval Resolution Regarding the Purchase of All Risk Property Insurance for the Period 4/1/07 – 4/1/08

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

RESOLVED: That CRRA's \$348 million All Risk Property Insurance be purchased for a premium of \$671,450 (including terrorism and engineering) from the following three insurers with their quota shares as indicated: XL 35%, Zurich 35%; Starr Tech 30%; and

FURTHER RESOLVED: That CRRA obtain engineering services from Zurich, the cost of which is included in their premium share.

Director Martland seconded the motion.

Director O'Brien suggested that the words "loss prevention" be inserted before the word "engineering" in the last paragraph of the resolution.

Director O'Brien stated that he felt uncomfortable with the time frame on this resolution since the policy expires on March 31. Director O'Brien asked if it was possible to get the insurance information to the Committee any earlier to allow the Committee more time to review the information. Mr. Bolduc stated that management is constrained by the insurance companies because they will not submit their bids too early. Chairman Francis asked if the renewal period could perhaps be moved. Mr. Bolduc stated that even if management moved the renewal date, the insurance companies would not expedite their bid process, but stated that management will make every effort to get the insurance information to the Committee as soon as it is available.

Mr. Bolduc stated that there were a few corrections that needed to be made to the supporting documentation following Tab B. With regard to the current policy, the first bullet should read, "Expires 4/1/07" rather than 4/1/06. The seventh bullet in the information related to the renewal policy should read \$21,450. Mr. Bolduc referred the Committee to the summary on the last page in the section and explained that the table summarizes all of the policies and gives an overall view of the premiums associated with all the policies up for renewal. Mr. Bolduc pointed out that the premiums were approximately \$24,000 less than budgeted and \$70,000 less than last year's premiums.

Ms. Martin introduced Mr. McStravick, Ms. Flynn and Mr. Perron from AON. Mr. McStravick noted that he would work with the insurance carriers next year to get the insurance renewal information to management as early as possible. Mr. McStravick stated that AON has specialists who handle each line of insurance. Mr. Perron handled CRRA's All Risk Property Insurance and Ms. Flynn handled the Public Officials, Crime and Fiduciary Liability portions of the policy. Mr. McStravick stated that specialization gets the best price and best coverage.

Mr. Perron informed the Committee that tours of CRRA facilities were given to insurance underwriters in order to familiarize the underwriters with CRRA's business, meet CRRA staff and alleviate some of the underwriters' concerns. Mr. Perron summarized that last year's policy was written by five carriers: XL, Starr Tech, ACE, Arch and Zurich. Mr. Perron stated that the

property market in general has changed, especially if the facilities are not in areas at risk for catastrophic windstorms or earthquakes. If the insured doesn't have locations in Florida, along the Gulf Coast or in California most clients are seeing better renewal premiums. In addition, Mr. Perron indicated that AON's goal for this renewal was to get competition from other carriers to drive the price down.

Mr. Perron noted he expected AIG to be very competitive, but AIG's quote was actually higher than the cost of CRRA's current policy. Mr. Perron stated that Travelers also quoted to secure CRRA's entire risk. These two competitive bids encouraged CRRA's current carriers to also bid aggressively. XL wanted to increase their participation from 27% to 50% and Starr Tech also wanted to increase their participation.

Mr. Perron indicated that Ms. Martin was particularly interested in decreasing the mobile equipment deductible. Mr. Perron explained that CRRA currently has a three-pronged deductible: \$50,000 is the main deductible for physical damage; \$250,000 is the deductible for the waste-to-energy facilities; and the deductible for mobile equipment is now defined as \$100,000.

In addition, Mr. Perron noted that it had previously been unclear how the insurance policy would respond to a loss of an exhibit at either of the trash museums. Ms. Martin wanted clarification on this point and this item has been clarified going forward.

Mr. Perron stated that as a result of AON's marketing program, AON was able to save CRRA approximately \$80,000 over last year's premium, which is approximately an 11% premium reduction, along with a slightly higher policy limit. Chairman Francis asked if the increased limit included any new items. Mr. Perron responded that the policy limit is determined by replacement value and a worst-case scenario incident involving components of the Mid-Connecticut Project.

Director O'Brien asked how many mobile equipment units are currently owned by CRRA and what the value of that equipment is. Ms. Martin stated that the total value is around \$6 million and Mr. Constable added that there are approximately 16 units.

Mr. Perron noted that as part of the premium, Zurich and Star Tech will each provide a complimentary loss prevention inspection.

Chairman Francis referred the Committee to page 3 of the summary and requested that the mobile equipment deductible of \$100,000 be included in the "Deductibles" column.

Director O'Brien asked if, following a loss, each of the three insurance companies would pay only their respective share: XL 35%, Starr Tech 35%, and Zurich 30%. Mr. Perron replied in the affirmative. Mr. Perron stated that XL would be the lead carrier. Director O'Brien stated that since Zurich was providing more perks with their policy, they should be given a 35% share and Starr Tech should be given the 30% share. Chairman Francis agreed. Ms. Martin stated that she would change the resolution to: Zurich 35%, XL 35% and Starr Tech 30%.

Chairman Francis asked about the Travelers quote. Mr. Perron stated that AON was uncomfortable with their bid. Mr. Perron explained that Travelers writes their policies on a

“Travelers” form, not a Unitech policy form which gives broader coverage. Secondly, CRRA’s current policy is written on a replacement value basis, but Travelers was only willing to cover the value reported plus a percentage. Ms. Martin stated that she was not confident in the values assigned to the facilities for coverage purposes and, therefore, she was not comfortable with that clause in the Travelers policy. Mr. Perron noted that with regard to the business interruption coverage the policy is written to the value reported. Mr. Perron added that Ms. Martin has endeavored to get accurate values for this coverage from those intimately involved in the operation of these facilities.

The motion previously made and seconded was unanimously approved by roll call.

3. Review and Recommend for Board Approval Resolution Regarding the Purchase of Public Officials and Employees Liability Insurance for the period 4/1/07 – 4/1/08

Chairman Francis requested a motion regarding the above-captioned matter. Vice-Chairman O’Brien made the following motion:

RESOLVED: That CRRA’s Public Officials and Employees Liability insurance be purchased from ACE with a \$10,000,000 limit, \$250,000 deductible for the period 4/1/07 – 4/1/08 for a premium of \$222,480, as discussed at this meeting.

The motion was seconded by Director Martland.

Ms. Flynn informed the Committee that the market for Public Officials insurance is severely limited which has an impact on the premium and coverage. Ms. Flynn stated that AON went to the incumbent, ACE, and was given quotes for \$5 million and \$10 million limits. Ms. Flynn stated that Great American, Zurich and St. Paul all declined to bid due to the loss history. Ms. Flynn indicated that next year she would like to tap into the wholesale market to get a more competitive quote and perhaps better coverage. Ms. Flynn stated that AON was able to get a price reduction on this year’s Public Officials Liability coverage of \$12,040 for the same coverage.

Chairman Pace asked Ms. Flynn where she saw the industry going as far as public officials facing too much exposure in performing their public duties, especially in a volunteer capacity. Ms. Flynn stated that directors and officers face the same challenges in private industry also because we are living in a litigious society. Ms. Flynn added that as more lawsuits are brought, companies are going to need more coverage for their directors and officers.

Director Karanian asked how insurance companies determine what the Public Officials Liability coverage limit should be. Ms. Flynn stated that insurers do benchmarking (see page 19 of presentation) and compare what other companies of the same size are carrying.

Director O’Brien asked for clarification on the first bullet in Section III of Tab C. Director O’Brien stated that it was his understanding that this coverage did not cover him specifically, but covered CRRA’s ratepayers in the event of a judgment against the Board. Ms. Martin stated that this policy does in fact protect the Board members individually and that this coverage is CRRA’s means of helping to meet the obligations set out in the Connecticut General

Statutes. Ms. Martin stated that she would add a bullet stating that this coverage does not reduce the obligations outlined in the Connecticut General Statutes.

Mr. Kirk asked if this was a declining balance policy. Ms. Martin replied in the affirmative. Chairman Pace asked if \$10 million was the maximum that could be purchased. Ms. Flynn stated that at the present time \$10 million is the maximum, but Ms. Flynn added that if the market continues to soften and expand, there is a possibility it could be increased next year. Ms. Flynn stated that her recommendation would be \$25 million if that were the case.

The motion previously made and seconded was unanimously approved by roll call.

4. Review and Recommend for Board Approval Resolution Regarding Purchase of Commercial Crime Insurance for the Period 4/1/07 – 4/1/08

Chairman Francis requested a motion regarding the above-captioned matter. Vice-Chairman 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 \$3,253 for the period 4/1/07 – 4/1/08 as discussed at this meeting.

The motion was seconded by Director Martland.

Ms. Flynn stated that St. Paul Travelers, the incumbent, offered a \$3 million limit with a \$100,000 deductible along with two enhancements to the policy: 1) added coverage for costs of investigative expenses and 2) an added \$3 million limit for funds transfer fraud. The premium increased \$58 from last year.

The motion previously made and seconded was unanimously approved by roll call.

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

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

Director Martland seconded the motion.

RESOLVED: That CRRA's \$3,000,000 Fiduciary Liability insurance, with a separate \$1,000,000 limit for defense expenses, for a premium of \$4,577 from St. Paul Travelers for the term 4/1/07 – 4/1/08, as discussed at this meeting.

Ms. Flynn explained that St. Paul Travelers, the incumbent, offered \$3 million coverage with a \$5,000 deductible for a premium of \$4,577, which includes \$1 million additional coverage for defense costs.

The motion previously made and seconded was unanimously approved by roll call.

6. Review and Recommend for Board Approval RFS to Aon for Study of Alternatives to Commercial Insurance

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

Director Martland seconded the motion.

RESOLVED: That the CRRA President is authorized to execute the Request for Services regarding Alternatives to Commercial Insurance to Aon Risk Services for an amount not to exceed \$15,100, as discussed at this meeting.

Mr. Bolduc reminded the Committee that last year's casualty insurance renewal was difficult because of a lack of bidders and, at that time, the Finance Committee and the Board asked management to review alternatives to traditional insurance. Mr. Bolduc indicated that he and Ms. Martin had been working with Aon to establish a plan to study various options. Mr. Bolduc stated that Aon and CRRA are proposing a three-phase approach to this study. Mr. Bolduc indicated that at this time, management is recommending approving an RFS for Aon to begin Phase 1, which would identify, describe and present alternative approaches for a cost of \$10,000 plus reasonable out-of-pocket expenses not to exceed \$5,000.

Mr. McStravick stated that it was his hope that there would be more competition for the casualty insurance renewal this year, but in the event that there is not, management should begin looking into alternative options. Director Martland asked if CRRA could combine traditional coverage with self-insurance. Mr. McStravick stated that this would certainly be one option.

Director O'Brien asked if CRRA would be able to fund a self-insured policy in a timely manner. Mr. Bolduc stated that all options would be reviewed, including cost. Mr. McStravick noted that, assuming there are no environmental losses, the renewal in October of 2007 should be competitive. Mr. McStravick indicated that this study would be good to have in the future should the need arise.

Director Karanian stated that Phase I was an investment in education to review the options and felt that it was a prudent plan. Director Martland agreed.

Chairman Pace asked when CRRA could expect the Phase I report back from Aon. Mr. McStravick stated that it should be back to CRRA in six to eight weeks once AON receives the information they need from CRRA. Chairman Pace asked if the Board approved Phase I, if CRRA would be committed to Phases 2 and 3. Ms. Martin replied in the negative and explained that each phase is a separate entity. Chairman Pace stated that he did not think this was a good time to undertake such a study. Ms. Martin stated that management believes it is worth the cost to see what alternatives would be available to CRRA should the need arise. Director Karanian agreed that now is the time to look into alternatives, rather than waiting until there is a problem.

The motion previously made and seconded was approved by roll call. Chairman Pace and Director Lauretti voted nay.

7. **Review and Recommend for Board Approval MDC FY-07 Overruns & Additions**

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

RESOLVED: That the fiscal year 2007 Metropolitan District Commission Mid-Connecticut Project Annual Operating Budget be amended as follows:

- That an additional \$2,032,788 be authorized for the Waste Processing Facility function to cover the projected additional operating costs; and
- That an additional \$91,769 be authorized for the Landfill function to cover the projected additional operating costs;
- That an additional \$3,200 be authorized for the Waste Transportation function to cover the projected additional operating costs;

FURTHER RESOLVED: That the cost of the capital projects incurred by the MDC in the amount of \$382,000 to be funded from the Facility Modification Reserve.

Director Karanian seconded the motion.

Mr. Constable stated that MDC is running over their current budget due to capital purchases, hiring of stock clerks, increased fuel costs and equipment repairs. Mr. Constable stated that over the next two years, CRRA would be purchasing new equipment, which will result in a reduction in maintenance cost and an increase in production.

Director O'Brien stated that the Waste Processing Facility documentation indicates that there is more overtime due to vacancies, but the budget is only \$85,000 less on regular pay and almost \$387,930 more on overtime. Mr. Constable explained that this year MDC resolved a dispute with the union so there was a retroactive payout, which is reflected in these numbers. Mr. Constable stated that he would obtain a breakdown of the payout. Director O'Brien asked about the Projected Major Medical Payment of \$1,000. Mr. Constable replied that MDC had changed their medical coverage and that this item would be eliminated in the future.

Chairman Francis asked if the Budget Summary only included expenses already incurred. Mr. Constable stated that the number includes projected expenses in addition to expenses already incurred.

The motion previously made and seconded was unanimously approved.

Chairman Pace stated that he and Mr. Kirk had met with Mr. Sheehan and Mr. DiBella of MDC regarding the South Meadows Project. Chairman Pace expressed his desire for CRRA to keep communications lines open and understand the full scale of their initiative. Chairman Pace said that he would like to be at the table with MDC to work in concert with them. Chairman Pace stated that he wants to be sure the Finance Committee is aware of the situation and added that the Executive Committee should sit down with MDC in order to better understand the

project. Chairman Pace, with the recommendation of the Finance Committee, will update the Board on this project at their next meeting.

8. Executive Session

Chairman Pace requested a motion to enter into Executive Session to discuss pending litigation with appropriate staff. The motion made by Director O'Brien and seconded by Director Martland was approved unanimously. Chairman Pace requested that the following people be invited to the Executive Session in addition to the Directors:

Tom Kirk
Jim Bolduc

The Executive Session began at 11:15 a.m. and concluded at 11:30 a.m. Chairman Pace noted that no votes were taken in Executive Session.

The meeting was reconvened at 11:30 a.m.

ADJOURNMENT

Chairman Francis requested a motion to adjourn the meeting. The motion made by Vice-Chairman O'Brien and seconded by Director Martland was passed unanimously.

The meeting was adjourned at 11:32 a.m.

Respectfully submitted,

Kristen B. Greig
Secretary to the Board/Paralegal