SPECIAL MEETING

The HBPW Board of Directors met
June 28, 2021
at 5:00 p.m.
Holland City Council Chambers
270 S. River Ave.
Holland, Michigan

Chair Hemingway called the meeting to order at 5:03 p.m.

Members Present: Tim Hemingway, Diane Haworth, Paul Lilly, PJ Thompson, City Council Liaison Nathan Bocks, and Ex Officio Members Bob Shilander and Keith Van Beek

Members Absent: Sue Franz

Staff Present: Dave Koster, Janet Lemson, Ted Siler, Becky Lehman, Chuck Warren, Jon Hofman

21.248 **Approval of Agenda**

Board Member Lilly made a motion to approve the agenda. The motion was seconded by Board Member Haworth.

21.249 **Communications from the Audience**

None

21.250 **Financial Update**

For information only

SPECIAL ACTION ITEMS **Insurance Services Renewal for FY2022 with AJ Gallagher (AJG)**

21.251 Board approval of the FY 2021-22 Insurance program as provided through Arthur J. Gallagher Insurance is requested. This is the seventh year that AJ Gallagher has served as the City's Agent of Record. The insurance marketplace proved to be challenging for the current renewal given recent losses due to natural disasters, unrest due to the pandemic, and large jury awards. The attached Executive Summary provides a narrative of the program for 2021-22 as well as costs for each of the coverage categories.

The City/HBPW currently maintains $20 million of Excess Liability Insurance and has self-insured retention (SIR) deductible of $100,000 per incident/$300,000 aggregate limit. Given the marketplace, City/HBPW staff requested options related to the SIR and the coverage level of Excess Liability Insurance. Following is a summary of those options:

SIR Deductible	Excess Liability	Total Cost	$ Increase	% Increase
$100,000	$20 Million	$1,479,451	$223,195	17.77%
$200,000	$20 Million	$1,444,345	$188,089	14.97%
$250,000	$20 Million	$1,428,355	$172,099	13.70%
$100,000	$15 Million	$1,449,573	$193,317	15.39%
$200,000	$15 Million	$1,414,467	$158,211	12.59%
$250,000	$15 Million	$1,398,477	$142,220	11.32%

** Red italics indicate information or discussion added during the meeting and/or action taken.*

To evaluate the option to increase the SIR, staff analyzed claims history since 2011 and noted only two claims that exceeded the $100,000 SIR. Furthermore, the City/HBPW have adequate reserve positions across the various insurance funds. Given the strong reserve position, favorable claims experience, and efficient claims processing procedures, staff recommends increasing the SIR to $250,000 for a savings of $51,096.

Staff also reviewed the history of Excess Liability coverage levels and noted since 2000, the City/HBPW has been at the $20 million levels with the exception of three years following the 9/11 event which disrupted the insurance markets. In 2002, the coverage was reduced to $11 million; and in 2003 and 2004, coverage was at the $15 million level. The cost savings associated with reducing the coverage by $5 million is only $29,878. Staff recommends staying at the $20 million level.

In summary, the total cost of the proposed renewal for the City/HBPW FY 2021-22 Insurance Program is $1,428,355 which represents an increase of $172,099, or 13.70% from the prior year. HBPW's share of the program cost is $973,769 (commensurate with the overall 13.70% increase). Consistent with the prior year, this program does not reflect property coverage for HBPW generation assets which includes Holland Energy Park and peaking units. That coverage is handled separately.

A renewal of the Third-Party Administrator (TPA) services with Alternative Service Concepts (ASC) is included in the program recommendation with a minimum cost of $21,125 as well as an agreement with Gallagher Bassett for claims administration (no additional cost). The AJG brokerage services agreement amendment for FY2022, at the same $70,000 fee as the previous year, is also included for approval.

Recommendation: The Board of Directors approved the Insurance Program for FY2021-22. It is further recommended that the Board approve the agreements with Alternative Service Concepts (ASC) for Third Party Administration services, Gallagher Bassett for claims administration, and AJG for insurance brokerage services.

Motion to approve recommendation	*Haworth*
Second	*Thompson*
Favor	*4*
Oppose	*0*

21.252 **Insurance Services Renewal for FY2022 with Marsh, Inc.**

Board approval of the FY2022 insurance program provided through Marsh Inc. is requested. This is the second year that Marsh has served as the HBPW Agent of Record for the HEP and peaking station property insurance. Recognizing that the insurance market continues to harden, with many carriers reducing capacity or withdrawing from the US energy market, Marsh risk consulting staff expended considerable effort with HBPW energy production personnel, during the this past fiscal year, on engineering surveys and other engagements with carriers to better position HBPW in the insurance market place.

The result of this effort is an insurance program involving five leading insurance companies, assuming various levels of risk, at a total maximum annual cost 22% less than last year (FY 2021 $1,276,316 vs FY2022 $995,112). Discussions with the carriers are continuing about reducing the coverage on the 6th Street station for debris removal only, with a $10,000,000 limit. Current quotes are for actual cash value on 6th Street and replacement cost on the other generation assets. The debris removal only quotes were not available at the time this recommendation was drafted. The carriers and coverage levels are summarized below:

Carrier		Quota Share	Premium
Munich Re		25%	$ 190,133
AEGIS		25%	$ 255,250
AIG		15%	$ 201,930
Allianz		15%	$ 119,337
Swiss Re		20%	$ 228,462
	Total	100%	$ 995,112

Some of the premium savings have been achieved by increasing SIR's (e.g., deductibles), summarized below:

	HEP Real & Personal	HEP Gas Turbine	48th St Real & Personal	48th St Units 7 & 8	48th St Unit 9	6th St Real & Personal	6th St Unit 6
Carrier	$	$	$	$	$	$	$
Munich Re	100,000	500,000	250,000	500,000	750,000	250,000	1,000,000
Allianz	100,000	*500,000	250,000	500,000	750,000	250,000	1,000,000
Swiss Re	100,000	500,000	250,000	500,000	750,000	250,000	500,000
AEGIS	250,000	750,000	250,000	750,000	750,000	250,000	1,500,000
AIG	750,000	750,000	1,250,000	1,250,000	1,250,000	No Coverage	No coverage

*applies to steam turbine also

The electric utility consistently maintains over $5 million in cash/investment reserves for insurance. Staff believes with adequate reserves, the above SIR's are prudent, and have contributed to the substantial reduction in premium cost in a difficult insurance market.

Since quotes are not yet final, staff also requests that the Board authorize the General Manager to execute the documents necessary to bind coverage, as long the final total premium amount does not exceed $995,112.

Recommendation: The Board of Directors approved the Marsh proposed $245,000,000 Property Insurance Program, with premiums not to exceed $995,112, and the Marsh agreement (subject to approval as to form by the City Attorney) for brokerage and property loss control services, at a total cost of $70,000, for FY2022. Also, grant the General Manager approval to execute the documents necessary to bind coverage.

Motion to approve recommendation	*Haworth*
Second	*Lilly*
Favor	*4*
Oppose	*0*

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STUDY ITEM **Compensation Program Metrics**

21.253 **1. <u>Distribution of annual overall performance ratings for covered employees</u>**

The table below summarizes the distribution of "overall performance" ratings given to each covered employee. Data below is for performance reviews completed at the end of FY2020. It includes 20 Management reviews and 50 Professional reviews.

"Overall Performance" Rating Distribution	*Needs Improvement Now*	*Needs Consistency*	*Strong Performance*	*Leading Performance*
Management (M)	0%	0%	85%	15%
Professional (P)	0%	2%	84%	14%

In addition to the "Overall Performance" rating, each performance review includes the following specific performance areas upon which the employee is evaluated (arranged alphabetically): Accountability, Continuous Improvement, Customer Focus, Employee Fulfillment, Empowerment, Integrity, Open Communications, Professional Development, Safety. These areas represent the HBPW's core values. The ratings for these specific performance areas were aggregated for all employees covered by each wage table, and are reported below.

Specific Performance Area Rating Distribution	*Needs Improvement Now*	*Needs Consistency*	*Strong Performance*	*Leading Performance*
Management (M)	0%	3%	70%	27%
Professional (P)	0%	4%	72%	24%

2. <u>The overall compa-ratio for each wage table</u>

The compa-ratio for a job classification is the ratio of actual wage paid vs. the market midpoint wage for that position. A compa-ratio of 100 means that the employee is being paid at market midpoint (i.e. 100% of midpoint). For the purposes of calculating the compa-ratio, the HBPW uses market midpoints developed for the utility by compensation consulting firm Rahmberg, Stover & Associates. These midpoints are formally reviewed and updated every three years. They are escalated annually using relevant data from the Salary Budget Survey performed by the World at Work professional association. Midpoints were escalated by 2.2% in July 2019, and 2.1% in July 2020. They will again be escalated by 2.1% in July 2021

Average compa-ratio as of May 1

	2021	2020	2019
Management (M)	97.7	96.5	94.7
Professional (P)	98.8	100.2	98.4

The average compa-ratio of a group will vary over time based upon turnover and labor market forces. It is anticipated that over time, the average compa-ratio for both wage tables will range from 97 and 103.

3. Distribution of employee wage to range midpoint for covered employees

As of May 1, 2021, compensation of employees in the Management (M) wage table ranged from 85% to 104% of midpoint. This represented almost no change from 2020, when compensation ranged from 87% to 104%. The following graph shows the distribution of current compensation from the Management (M) wage table. It can be read as follows: Four management employees are currently at 99% of their respective wage range midpoints.

As of May 1, 2021, compensation of employees in the Professional (P) wage table ranged from 86% to 111% of midpoint. As with the managerial distribution, this represented virtually no change from 2020, when compensation ranged from 87% to 112% of midpoint.

4. Employee turnover rates

Turnover occurs through retirement, voluntary separation, and employment termination. During the year ending May 1, 2021, the HBPW experienced the following turnover rates among employees compensated in the Management (M) and Professional (P) wage tables.

Management (M) employee turnover 3.8%(1 individual)
Professional (P) employee turnover 10.3%(6 individuals)

The management departure and four of the professional employee departures were due to employees pursuing competitive employment opportunities (i.e. voluntary non-retirement separations). Voluntary non-retirement departures underscore the need for the HBPW to continue its efforts to maintain an attractive culture and a competitive wage and benefit package.

Summary

There has been some discussion in prior years regarding the general lack of “Needs Improvement Now” and “Needs Consistency” ratings in the HBPW’s performance reviews. It is very rare for an employee to receive either of these ratings as their “Overall Performance” rating on their fiscal year-end review. These ratings are more likely to be used to describe an employee’s performance in a specific organizational value area.

This is not due to a lack of performance expectations, or a lack of rigor in the completion of performance reviews. Rather, it reflects the HBPW’s practice of addressing performance shortcomings as they occur, rather than waiting for a formal, year-end review. As such, most performance-related issues are resolved in advance of the annual review process. Employees who don’t meet HBPW expectations of performance and productivity – despite the direction, support and encouragement of supervision and management – are respectfully separated from employment. This management action has the effect of concatenating the low end of the ratings curve, giving the impression that rating inflation is taking place.

This report marks the third full year of HBPW experience with the updated Management and Professional employee wage tables. The flexibility that is built in to both of these wage tables – wage ranges of 85% to 115% of relevant market midpoint – has allowed the HBPW to retain talent internally (through promotions), as well as to source new talent successfully from outside the organization.

Study item. No Board action required.

21.254 **Other Business**

Reading of proclamation for Diane Haworth’s service to the Board on this, her last HBPW Board of Directors meeting.

21.255 **General Manager Comments**

- Our next meeting is July 12; we will again return to the HBPW Service Center Boardroom
- Many, thanks to Diane Haworth for her 12 years of service on the Board
- Carolyn Maloof in Diane’s place, tours will be happening
- Secretary to the Board will be coordinating a lunch in honor of Diane

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ADJOURNMENT

A motion to adjourn the meeting of *June 28, 2021,* was made by *Haworth* supported by *Lilly* and agreed upon by the Board of Directors present.

The Board Meeting of June 28, 2021, adjourned at *6:00 p.m.*

Minutes respectfully submitted by,

Janet Lemson, Secretary to the Board

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