

WESTERN PA HOUSING DIRECTOR'S ASSOCIATION
Meeting Minutes, October 29, 2013
Chestnut Ridge Resort, Blairsville, PA 15717

The meeting of the Western Pennsylvania Housing Director's Association was held on Tuesday, October 29, 2013 at the Chestnut Ridge Resort, Blairsville, PA.

Welcome – Dusti Dennis opened the annual meeting at 10:00 AM, welcoming everyone in attendance.

Report of Nominating Committee – There are 2 vacant officer positions due to the resignation of Jim Chandler of Venango County Housing Authority. The Nominating Committee recommended Tonya Mitchell-Weston of Warren County Housing Authority to fill the position of Vice President and Alexa Vroman of Titusville Housing Authority to fill the Secretary position. John Wright made a motion to accept these nominations, seconded by Allegheny County Housing Authority, motion unanimously carried.

Outgoing Comments from the President – Dusti reported that the recent maintenance roundtable had gone very well. She also commented that some of the trainings during the past year had not been as well attended as anticipated, but felt it had been a productive year.

Incoming President - Dusti welcomed Dawn Sunderland as the new President. Dawn began by recognizing the outgoing President and presenting her with a plaque in appreciation of her service. Dawn then made a request that from now on when members make or second a motion that they would state their name for ease in record keeping.

Approval of Minutes - A motion to approve the minutes as presented from the August 8, 2013 meeting was made by John Wright, seconded by Dusti Dennis. The motion carried with a unanimous vote.

Treasurer's Report – There were no bills or communications, so Steve Hall, Treasurer, reviewed the financial statement ending September 30, 2013. He reported the balance stands at \$53,619.46. Even though the association incurred a loss of \$11,221.27 this past year, Steve indicated this is still a healthy balance. We may want to consider charging more for future trainings.

Unfinished Business

- Training schedule – Dawn suggested in the future we have preregistration to commit a certain number of attendees. If there are any training topics you are interested in, please contact one of the officers.
- December meeting – last year this was very poorly attended. Therefore, it was decided to have no December meeting this year.

New Business – Dawn introduced the first speaker, Jacqueline Molinaro-Thompson, Director, Field Office of Public Housing, Pittsburgh HUD office. Jacqueline distributed PHAS and SEMAP high performer certificates and spoke on a number of topics. Her notes are attached to these minutes.

After Jacqueline's presentation, Dawn introduced Marc Little, President/CEO of Minority & Women Educational Labor Agency. Mr. Little spoke on the PHA Captive Insurance Strategy which is to insure that Minority, Women, and Section 3 businesses are able to secure bonding and therefore obtain their fair share of the potential development and construction projects for PHAs. Notes from Mr. Little are attached.

Adjournment – On a motion duly made, the meeting adjourned at 11:50 A.M. The motion carried unanimously. The next meeting will be held on January 28, 2014 at the Holiday Inn, Indiana, PA.

Respectfully submitted,

Alexa Vroman

Public Housing Authority Captive Insurance Company Executive Summary

The primary purpose of the “Public Housing Authority Captive Insurance Strategy” is to insure that Minority/Women/Section 3 contracting businesses are able to secure their fair share of the potential development and construction projects within the scope of the potential Public Housing Authority Markets. We intend to accomplish this through:

1. Provide a model to enhance the financials of prime contractors (GC’s) within the M/W/S3 contracting community so that they are able to establish bonding capacity on their own sufficient and appropriate to the scope of projects being offered within this market
2. Establishing a Captive Insurance Company (hereafter referred to as *a CIC*) for the purposes of providing bonding services to the M/W/Section 3 contracting group community

CAPTIVE INSURANCE COMPANY by Definition:

A captive insurance company is a privately held insurance company approved and given license to do business in accord with its defined parameters domestically (in the U.S.) by its respective State Insurance Department and governing regulatory body. Internationally, the captive insurance company (CIC) falls under the jurisdiction of the governing, regulatory, and overview authority within its respective domicile

A captive insurance company (hereinafter referred to as CIC) is an individual insurance entity that exists for the purposes of underwriting various select risk exposures that individual businesses may face. The CIC shares risk with other non-related business entities within a body that is referred to as a risk-pool.

Program Model Design

We have designed a model that allows Public Housing Authorities to provide necessary bonding capability to contractors represented within the M/W/Section 3 contracting group in two ways:

1. Establish a Public Housing Authority risk pool in which all Public Housing Authorities may participate in this program
2. Each authority may participate as a primary investor within the Captive Insurance Company by using Central Office Cost Center funds.
3. If the individual authority is not able to participate as a primary investor, they may participate by paying a bond premium in order to secure the bonding necessary to cover the M/W/S3 contractor.

Primary Points

There are several primary points and advantages that this program has to offer:

- The Public Housing Authorities are now able to meet the quota demands of M/W/S3 participation within their development projects.
- Funds that are available to these purposes now have a legitimate outlet per the original intent of utilization
- For those Authorities that participate as primary investors in support of the program, this program creates an ongoing revenue stream back to the participating Authority/Primary Investor (*this essentially monetizes the funds earmarked for these purposes*)

The Market

Each individual authority (primary investor) has within its scope both primary and secondary markets:

- **Primary Market:** its annual budget for development and improvement within the scope of the market that it serves
- **Secondary Market:** the annual budget for development and improvement within the scope of other smaller authorities unable to participate as primary investors. The prime investor captive is able to provide bonding capacity on behalf of the M/W/S3 representative contracting group community

The scope of the projects annually (primary + secondary) will be determined by the annual budgets established within each primary/secondary PHA community. The financial projections will be determined by the amount of bonds projected to be provided and the premiums that these bonds will provide as a revenue stream back to the individual PHA's CIC.

The Challenge

In theory, legislation has sent forth a noble gesture in order to serve the M/W/S3 contractors; however, in reality, only a fraction of the desired percentage of contractors that fall within this pre-defined space ever get a direct participation opportunity for these contracts:

Primary Challenge: *many minority, women, and disadvantaged contractors are unable to demonstrate the necessary financials in order secure competitive and necessary bonding capacity. Hence, this group has been unable to bridge the financial gap necessary to compete successfully and ultimately, take advantage of these contracts.*

This challenge further limits their ability to survive and to grow beyond their current production capacities in order that they may serve within this space. Consequently, a “Catch-22” is created and this group remains egregiously underserved as a result—hence:

- 1. They remain limited by their financials currently*
- 2. They are unable to grow beyond their existing production capacity*
- 3. They are unable to improve their financials over time in order to solidify and grow their bonding capacities moving forward*

Stop-Gap Measure (the Band-Aid): *to date, in order to address this problem, many of these contractors within these groups have had to ally themselves within quasi-joint venture partnerships with larger, and most often, non-minority, women, and disadvantaged contractors, (M/W/S3). This stop-gap measure has resulted in the proliferation of the problem vs. serving as a solution resulting in the following challenges:*

- 1. M/W/S3 contractors are not directly bonding as a result of going under the umbrella of a larger contractor*
- 2. They develop no “Bonding-history”—a critical underwriting requirement for receiving bonds moving forward into the future*
- 3. Although they may be defined as “Joint-Venture partners or otherwise,” the reality is that they are relegated to SUB-CONTRACTOR status in the eyes of the profession and the insurance industry—especially surety companies*
- 4. The sharing necessitated by this “Partnership” arrangement cuts into the overall revenues, profits, etc.*
- 5. Profit margins are reduced substantially; consequently, these lower profit margins create additional problems such as:*
 - Further increasing their inability to enhance liquid cash reserves necessary in order to secure bonds*
 - Mitigating their ability to build cash reserves necessary in order to endure payment delays on these projects—thereby, diminishing the MWDBE contractor’s ability to meet cash-flow demands that exist in real time in spite of these delays*
 - Under the best of circumstances, monthly draw payments become available contractors within a 45-90 day window—still presenting a severe cash-liquidity/cash-flow issue*

As this challenge proliferates over time, Public Housing Authorities are unable to meet the true requirements as intended by the quota requirements of fair percentage and participation of the M/W/S3 contractors.

SOLUTION: (To be provided according to that which is appropriate and meaningful to the Housing Authority)

PHA – CIC Program Requirements

1. Minimum \$1MM in contract bonds to MWDBE/Section 3 contractors
2. Maximum Start-up investment \$500K

3. Minimum \$100,000 Investment
4. Pre-paid premium (Captive Manager – MWELA to provide)

As a primary investor in the establishment of a “Public Housing Authority CIC” this will provide an ongoing revenue stream back to the primary investor (PHA). This enables the individual primary investor (PHA) to profit from the development, redevelopment, and improvement projects they offer within a given year via premiums generated by the bonding requirements they create within each of their respective areas.

The secondary profit-stream available to the primary investor is premiums generated through bonds that they provide to neighboring authorities that are unable to participate as primary investors but wish to provide bonding capacity to their respective bonding groups.