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**Risk management: A study in collaboration among Michigan's
publicly supported institutions of higher education**

Duffett, Richard Patrick John, Ph.D.

Michigan State University, 1988

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RISK MANAGEMENT: A STUDY IN COLLABORATION AMONG
MICHIGAN'S PUBLICLY SUPPORTED INSTITUTIONS OF
HIGHER EDUCATION

BY

Richard Patrick John Duffett

A DISSERTATION

Submitted to
Michigan State University
in partial fulfillment of the requirements
for the degree of

DOCTOR OF PHILOSOPHY

Department of College
and University Administration

1988

ABSTRACT

RISK MANAGEMENT: A STUDY IN COLLABORATION AMONG MICHIGAN'S PUBLICLY SUPPORTED INSTITUTIONS OF HIGHER EDUCATION

by

Richard Patrick John Duffett

The purpose of this study was to chronicle the efforts of Michigan's Public Colleges and Universities to resolve a common risk financing problem, focusing on how institutions work together. From this study it can be determined that:

- autonomous publicly supported institutions in Michigan can join together to resolve a common problem.
- there is an identifiable process which may be used to resolve future common problems.
- there are identifiable strengths in the process which may be transferable in future joint problem solving efforts.
- erosion of institutional autonomy is acceptable under conditions which provide measurable benefits to each institution.
- institutions of various sizes can work together if there is equitable participation in the process.

All publicly supported four-year baccalaureate granting institutions of Michigan participated in the two-year process. This investigator was a full participant in the problem solving effort which provided an opportunity to accurately evaluate the occurrences resulting in a successful resolution to the problem. Aside from being an actual participant, interviews, review of documents, meeting agendas and minutes of group meetings preserved the chronological order of events in this historical organizational case study.

The successful resolution to the common risk financing problem resulted in the creation and operation of the Michigan Higher Education Group Self-Insurance and Risk Management Facility, a non-profit corporation formed in the State of Michigan. The corporation now provides certain types of liability insurance coverages for ten of the thirteen four-year publicly supported institutions of Michigan.

The signing of a group participation agreement developed by institutional administrators is significant. This group participation agreement is the first document of its kind in which autonomous four-year publicly supported institutions in Michigan have banded together and freely agreed to jointly share the success or failure of the group.

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**To Constance Lee, Krista Lee and
Sean Patrick for being so understanding**

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The dedicated institutional administrators whose efforts are reflected in this study must also be acknowledged. This bold and innovative problem solving effort is historical and unprecedented for publicly supported institutions of higher education in Michigan.

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1988

Rick Duffett

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CHAPTER I

THE PROBLEM

Introduction

Virtually every sector of the American economic system has been experiencing a national crisis involving the availability of a competitive commercial insurance market. Investment results and profits in the insurance industry have diminished substantially during the past several years. This, coupled with deteriorating underwriting results and skyrocketing loss ratios on an industry-wide basis, not only has driven up the cost of insurance but reduced availability.

Jay Pridmore states in the April 1986 edition of Cashflow:

"Crisis" isn't a word to be used indiscriminately. A crisis implies danger and potential disaster. A crisis involves pain. Insurance buyers are facing a crisis. The reasons behind the current insurance crisis are no mystery: Cashflow underwriting - the practice in the last decade of relying on investments rather than premiums to make money - depleting insurance companies¹ so dramatically that some have gone bankrupt.

Even those sectors of the economy which have experienced minimal losses are likewise experiencing large increases in premiums as a direct result of the overall insurance industry's experience. The impact of this national insurance

crisis on public colleges and universities has been significant.

Commercially purchased insurance has been the traditional method used to finance risk by institutions of higher education. The lack of affordable or availability of commercial insurance coverage and the ability to secure desired coverage irrespective of cost threatens the way in which colleges and universities are required to operate. Without adequate insurance protection, an institution's assets are vulnerable. A single or several catastrophic losses could prove so severe as to jeopardize an institution's financial integrity.

Denton (1985) states that colleges and universities throughout the country are facing difficult choices as insurance companies cancel coverage or demand premium increases as high as 800 percent.² Again, in the November 1985 edition of the National Association of College and University Business Officers publication:

Many insurance companies have decided not to insure certain classes of risk, including governing boards and medical malpractice. In other areas, insurance companies are trying to recoup underwriting losses with higher premiums. Many institutions have had coverage cancelled, particularly in the areas of trustee liability and umbrella coverage.

"There's panic in the streets," said board member A. Dean Buchanan of California Lutheran College. "We have to do more than rearrange the deck chairs on the Titanic."³

In the State of Michigan, public colleges and universities have also encountered significant increases in insurance premiums, reduced limits of coverage and the unavailability of certain types of insurance coverages. As a consequence, administrators of public state colleges and universities in Michigan have determined that it was in the best interests of individual institutions to voluntarily join together to attempt to resolve a common problem of managing institutional risks.

LITERATURE REVIEW

In this study, the pursuit of an alternative for financing risk undertaken by the four-year publicly supported institutions in Michigan is chronicled. The literature review in Chapter I will focus on verification of the difficulties facing purchasers of commercial insurance and support the concept of pursuing an alternative to the traditional form of financing risk by commercial insurance.

Farrell (1986) quotes California Insurance Commissioner, Bruce A. Bunner, who states that the whole insurance system isn't working and a vastly different system will almost inevitably emerge from the crisis.⁴ According to Fletcher (1986), public entities across the United States, hit hard by the tight insurance market, are flocking to an expanding range of self-insurance alternatives.⁵ Denton (1985) quotes John Walker, Director of Risk Management and Insurance at the University of

Alabama at Birmingham, who states that it is his belief that good imagination and good cooperation among institutions that are similar will be required in order to weather the storm and control our destiny when trying to resolve the insurance crisis.⁶ Pridmore (1986) states that insurance capacity is strapped, premiums are skyrocketing, and some coverages seem entirely unavailable. He further states that while there are no universal answers to the current hard insurance market, there are solutions to be considered; i.e., solutions like pooling, loss control, and going bare.⁷ Taravella (1987) indicates that for many companies, commercial insurance - especially liability coverage - is unavailable or unaffordable, forcing risk managers to seek risk financing alternatives like higher self-insured retentions or participation in industry captives or pools.⁸ Chanzis (1987) further states that there might be a decided change in the marketplace because of captive and self-funding arrangements, and recognition by sophisticated and unsophisticated purchasers of commercial insurance that the traditional market is not the sole alternative. We can self-insure, self-fund, pool our resources, and do as well as the traditional casualty insurance industry.⁹

Hatcher (1985) suggests that the insurance problem is far from unique. In the past year, hardly an industry or professional group has escaped the whiplash of an insurance market contraction that is by far the worst in modern times. He feels that insurance-denied industries and professions can protect

themselves by banding together with large pools of funding that both respond to losses within the group and go toward purchasing excess coverage for individual members.¹⁰

To further emphasize the difficulties encountered in attempting to secure adequate insurance protection for public entities, Bell (1985) writes that renewal insurance bills have been coming in for public schools in a range up to 300 percent over their former levels. High risk program offerings are being considered for elimination and some districts are uncertain they will be able to obtain coverage.¹¹ Schimpl (1985) reports that Bath Schools sent out 17 bid requests in May after they were notified their insurance would be canceled June 30. Not one company bid.¹²

As institutions of higher education continue to experience a decline in financial resources, there needs to be reevaluation of traditional methods of doing business. West (1985) states that higher education cries out for bold innovation: "We are at a juncture where we must think seriously about supplementing our traditional sources of income with additional sources. Even more important than supplementing traditional sources is the evaluation and assurance that current resources are being used in the most effective manner possible."¹³ The cooperative effort by public institutions in Michigan to solve a risk-financing problem is an example of a bold, innovative step and also is an effort to insure the best use of limited institutional resources.

STATEMENT OF PURPOSE

The difficulty that colleges and universities are experiencing with securing adequate insurance coverages is not new. In the mid-1970s, the property/casualty insurance industry's large underwriting losses required industry adjustments that were similar in nature to current conditions. Because of the severity of the present crisis, Michigan's four-year public colleges and universities determined that an exploration of an alternative to commercial insurance was necessary in order to reduce the adverse impact of the commercial insurance market on the publicly supported colleges and universities in Michigan.

The purpose of this study is to trace the process used, directly focusing on how autonomous institutions worked together to solve a risk management problem. Initially, thirteen public colleges and universities were involved in the effort. Central Michigan University, Eastern Michigan University, Ferris State College, Grand Valley State College, Michigan State University, Michigan Technological University, Northern Michigan University, Oakland University, Western Michigan University and Wayne State University would eventually join together to form the Michigan Higher Education Self-Insurance and Risk-Management Facility.

On November 4, 1987, Ferris State College, Grand Valley State College, Lake Superior State College and Saginaw Valley State College became universities as provided by law enacted by the State of Michigan.

During the search for an alternative to commercial insurance, this investigator felt that the resolution of two underlying assumptions were key to any successful effort to jointly solve a common risk management problem impacting the publicly supported colleges and universities of Michigan.

The first assumption concerned institutional autonomy. Michigan's publicly supported baccalaureate institutions have been established as separate constitutional entities, with boards of control of universities and colleges having general supervisory power, including plenary power to control and direct expenditures of funds generally to the exclusion of the state legislature.

This constitutionally granted autonomy is jealously guarded by each publicly supported institution and any erosion of autonomy resulting from the collaborative effort would be unacceptable.

It was also assumed that any effort by large institutions to exert greater influence, or to dominate because of size the direction or outcome of the effort, would likewise prove to be unacceptable to the smaller institutions. Large institutions are defined as institutions with numbers of full-time equated students in excess of 25,000. Smaller institutions are defined as institutions with less than 25,000 full-time equated students.

Throughout the chronicling of this problem-solving effort, all meetings and documents were analyzed to determine the validity of these assumptions.

NEED FOR STUDY

Insurance is a mechanism used to respond to unanticipated losses which might occur because of the risk involved in carrying out the stated mission and goals of an institution. Insurance is a contractual agreement between two parties, in which for a specific amount of money, one part is willing to pay to the other, an amount equal to loss suffered. Educational institutions have traditionally financed risk by purchasing insurance from commercial insurance carriers who, for a specified premium, assume the entities' risk.

Colleges and universities, not unlike other governmental agencies, have been adversely impacted by the commercial insurance market. Dramatic increases in premiums, reduced limits of coverage, unavailability of various types of insurance coverage, and exclusions on available coverages have necessitated the research and pursuit of an alternative method of managing risk in order to protect the financial and decision making integrity of the colleges and universities.

To give some perspective to the kind of financial impact that managing risk by commercially purchased insurance has had

on one institution, required a comparison of insurance premiums in the past three years. In fiscal year 1983-84, Ferris State College paid \$174,474 in premiums. The institution experienced a slight increase in 1984-85 rates, paying \$187,468 for the same coverages purchased the previous year. The full impact of the insurance crisis was felt in 1985-86 when the cost for insurance increased to \$676,797, constituting a 383% rise in premiums within a three-year period.¹⁴

While the cost of insurance escalated, several other factors made the crisis more threatening to the well-being of the institution. The limits of coverage, increased retention levels and numerous exclusions listed on the various policies have left the college with gaps in coverages that were previously included in commercially purchased insurance. There is every indication that this crisis will not abate, either in cost or quality of coverage. The problems facing Ferris State College were being encountered at all of the four-year public colleges and universities in Michigan.

Publicly supported institutions joined together to solve a common risk management problem, and an understanding of this unique milestone of cooperation which took place has an important place in the history of Higher Education in Michigan. Chronicling of the process used to resolve this problem will result in:

1. Identification of strengths and weaknesses of a process which may limit difficulties

and strengthen future efforts when joint problem-solving is required by public institutions in Michigan.

2. Providing a guidepost and procedure which may be useful to higher education administrators when considering an alternative to the traditional form of financing institutional risk by purchasing commercial insurance.

This study also adds to the body of knowledge by further clarifying whether successful voluntary cooperative problem-solving efforts by diverse institutions are possible.

SIGNIFICANCE OF THE STUDY

Information obtained from this study is important because it can:

1. Provide an understanding of a process which was used to resolve a common risk management problem impacting the four-year public colleges and universities in Michigan.
2. Identify strengths and weaknesses of the process which can strengthen future efforts when joint problem-solving is required.
3. Provide an understanding of how institutions in Michigan voluntarily cooperate.

BACKGROUND

Over a period of two years, this researcher, who is employed at a four-year public institution in Michigan, was involved in the research of an alternative to commercial insurance, and has been responsible with the function of

managing risk at an institution participating in this study. This administrative position has allowed access to the major events involving the coordinated effort to resolve the management of risk.

Direct observation and participation in the search for an alternative have provided the researcher opportunity to document and evaluate the alternative derived from the two-year process. The study will include: observation, interviews, examination of documentation and actual participation in the development of the alternative.

SCOPE OF THE STUDY

The study will include a time period beginning with an August 1985 meeting of the Michigan colleges and universities risk management administrators in which an organizational position statement was prepared indicating the group's desire to pursue an alternative to the traditional method of managing risk at the individual institutions, and concluding with successful implementation of the alternative.

The researcher was not privileged to attend all meetings involving the development of an alternative, but interviews and documentation will prove to be sufficient for a clear understanding of the process and outcomes of the efforts of participants in the project.

LIMITATIONS OF THE STUDY

1. The period of time involved in this study includes only the interval beginning with the recognition by administrators within public institutions in Michigan of the need to seek alternatives to risk financing through the successful implementation of the alternative.

2. This researcher was not privileged to participate in all meetings involving the decisions relating to the course of action which were decided upon; however, records and data collection of procedures will be used to obtain the coverage of content.

3. Because of the sensitivity of the information presented, it is necessary to limit the use of names of those administrators who participated in this undertaking.

PRESENTATION OF THE STUDY

In Chapter I the purpose and the need for the study is explained and a subject review of the literature is presented. Chapter II describes the methodology used in the presentation of the study. Chapter III chronicles the recognition and the initial consideration by institutional administrators of the risk financing problem. Also, the feasibility study phase

undertaken by college and university officials will be chronicled, emphasizing the assumptions of the investigator. Chapter IV chronicles the implementation and initial operational phase of the cooperative effort, again emphasizing the underlying assumptions of the investigator. Chapter V summarizes the process, considers observations and makes recommendations for further study.

DEFINITION OF TERMS

The following terms are defined as they are used in this study:

Assured - The person who has purchased a policy of insurance and is protected by it. Same as "insured" or "policyholder."¹⁵

Broker-agent - Large and successful agents, at times, operate both as brokers representing the policyholder, and as agents representing the company. Or, they may have an office in one city which operates strictly on a brokerage basis and an office in another city in which they are agents. They are called "broker-agents."¹⁶

Bodily injury - Injury to a human being, as opposed to injury to property.¹⁷

Captive company - A captive insurance company is an entity created and controlled by a parent company whose main purpose is to provide insurance for that parent.¹⁸

Claim - The amount which a policyholder believes he or she has coming from an insurance company as the result of some happening insured against. After its amount has been determined, it becomes a "loss." In practice, the terms "claim" and "loss" are synonymous.¹⁹

Commissioner of Insurance - The official of a state charged with the duty of enforcing the insurance laws. Also sometimes called the "insurance superintendent" or "director of insurance."²⁰

Comprehensive general liability policy - A policy providing broad coverage for claims made against the insured for bodily injury or damage to property of others for which he or she may become liable and which arise out of the insured's entire business operation.²¹

Deductible - Deductible clause - some policies are written to pay only after the policyholder has personally suffered an agreed amount of loss. The amount which the policyholder must lose first is "deducted" from the total of the damage to determine the amount the company must pay, and thus, becomes the "deductible."²²

Errors and Omissions liability insurance - Protects directors and officers of a corporation against damages from claims resulting from negligent or wrongful acts in the course of their duties. Also covers the corporation for expenses incurred in defending lawsuits arising from alleged wrongful acts of directors and officers. These policies always require the insured to retain part of the risk

uninsured.²³

Earned premium - When a premium is paid in advance for a certain time, the company is said to "earn" the premium as the time advances. For example, a policy written for three years and paid in advance would be one-third "earned" at the end of the first year of its life.²⁴

Exclusion - Something not covered and so set forth in the wording of the policy.²⁵

Expiration - A policy "expires" when the time for which it was written has run out.²⁶

Exposure - The danger of loss arising from what happens to another risk close by. Also the sum total of values which, if damaged or destroyed, would cause loss under a policy; i.e., payroll exposure or an exposure of a number of automobiles.²⁷

Hold-harmless agreement - A company may wish to pay a loss when it is not entirely sure that it may not be called upon to pay a second time to some other party. The payee may be asked to execute an agreement whereby the company will be reimbursed or held harmless by the payee if such should happen. The principal in a large construction project will frequently demand hold-harmless agreements from all subcontractors in respect to claims made against him arising out of the subcontractors' negligence. The principal often stipulates the purchase of a liability

policy by the subcontractor or support the hold-harmless agreement.²⁸

Incurred losses - Losses are "incurred" when they happen. The total of all such losses (whether or not paid) makes up this figure as it appears in operating statements. Since this figure is one used frequently for various periods as well as in annual statements, and it would take much work to keep track of the losses both by date of occurrence and payment, the figure is determined by subtracting from the period's paid losses those which were on the books unpaid at the beginning of the period, and adding those which are on the books unpaid at the end of the current period.²⁹

Indemnify - To make a loss good to the one who has suffered it.³⁰

Insurance - The making of a legal and enforceable contract between one party (called the insurer or underwriter) with another (called the insured); whereby, in consideration of a sum of money (called the premium), the insurer agrees to pay an agreed amount of money to the insured if and when the latter may suffer some loss or may be injured by some event, the happening of which is described in the contract of insurance (which is usually a "policy"). Also, the contract may be one which indemnifies the insured for claims made against him or her by third parties.³¹

Insured - The person who has purchased a policy of insurance and is protected by it. Same as "assured."³²

Liability insurance - A form of insurance that protects from liability imposed by law for bodily or other personal injury or damage to property. Legal liability normally results from negligent acts or omissions.³³

Loss - In insurance, it means the amount the insurer is required to pay because of a happening against which it is insured, a happening that causes the company to pay. Also refers to the overall financial result of some operation, as opposed to "profit."³⁴

Loss reduction - This is a form of risk management which assumes that a loss will occur, but attempt is made to reduce the severity of the loss. An example of this would be the installation of sprinkler heads in a building, which may not prevent a fire from starting, but will contain it and reduce the destruction.³⁵

Negligence - One who does not use the care to be expected from reasonably prudent procedure may be considered to be negligent. He or she may be negligent as the result of doing something or failing to do something. For a person to be responsible, or liable, for the consequence of his or her acts, it is first necessary to prove negligence.³⁶

Occurrence - A happening or event. A basis for coverage in liability policies much broader than the accident basis, which required the injury or damage to be due to a specific accident.³⁷

Premium - The amount of money an insurance company charges to provide the coverage that the policy describes.³⁸

Property insurance - The insurance of real and personal property against physical loss or damage. A form of indemnity insurance not to be confused with property damage liability insurance.³⁹

Reserve - A sum set aside to meet some future obligation.⁴⁰

Risk - The chance of loss. Specifically, the possible loss or destruction of property or the possible incurring of a liability. Sometimes refers to the subject of an insurance contract when talking of a "good risk" or a "poor risk."⁴¹

Risk elimination - This is a form of risk management which suggests that an entity not engage in certain activity.⁴²

Risk financing - There are several methods of financing risk. They are: 1) non-insurance, which is simply the acceptance of risk and the payment of losses as they arise; 2) self-insurance, a formal method of assuming risk. An entity decides to establish a methodology, controlled by the entity, for losses which will fall within a predetermined limit. This can take the form of self-funding, or pooling of risk with entities which have risks that are similar in nature; and 3) transferring risk, a method used to transfer fortuitous loss to an insurance carrier, who for a predetermined premium, accepts the risk of the entity. Transferring risk can also be accomplished by entering into hold-harmless agreements.⁴³

Risk management - Risk management is a plan to prevent operations or earnings from becoming intolerably impaired by

an event that destroys company-owned assets or contributing resources. Risk management represents a continuous effort to be aware of operational uncertainties and to minimize their loss potential.⁴⁴

Self-insurance - A term used when it has been decided to assume one's own risk through internal financing mechanisms rather than to purchase insurance.⁴⁵

Liquor liability - This liability insurance coverage pays damage for incidents arising out of the sale, furnishing or serving of alcoholic beverages.⁴⁶

Occurrence coverage form - This is a form of insurance coverage which provides coverage for claims brought against the insured, the only requirement being that the alleged incident occur while the policy was in force.⁴⁷

Claims-made coverage form - This is a form of insurance coverage which provides coverage for claims which were made only during the policy period.⁴⁸

Police professional liability - This liability insurance coverage pays damages as a result of legal liability imposed by any federal or state civil rights law, whether civil or criminal. This applies to activities of campus security personnel while acting within the scope of their respective duties.⁴⁹

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CHAPTER II

METHODOLOGY

This investigator employed the use of a case study during the chronicling of the effort to resolve a common risk management problem affecting the Michigan publicly supported baccalaureate granting institutions. A case study can best be described as research which is focused on one unit of analysis. The researcher designates a single unit of analysis regardless of the number of events, participants, or phases of a process recorded in note form. The unit of analysis may be an institution, a program, a process, or an organizational position. The investigation of the two-year effort, researching events, documents and participating in the process of resolving a common problem was the focus of this researcher's case study. Bogdan and Biklen (1982) describe a case study as being a detailed examination of one setting, or one single subject, or one single depository of documents, or one particular event. The authors describe various types of case studies that can be undertaken. Bogdan and Biklen categorize case studies in the following way:

- historical organizational case studies focus on an organization's development over a period of time, relying on data sources such as interviews, observations and written records.

- observational case studies in which the major data-gathering technique is participant observation and the focus of these types of studies are on particular organizations or some aspect of the those organizations.
- life history is a form of case study where the researcher conducts extensive interviews with one person for the purpose of collecting a first-person narrative.
- community studies is a form of case study where the researcher focuses on a neighborhood or community.
- situational analysis is another form of case study; in this type, a particular event is studied from the points of view of all the participants.
- microethnography is a form of case study in which studies are done either on very small units of an organization or on a very specific organizational activity.¹

The author's definition of historical organizational case studies as studies concentrating on a particular organization over time, tracing the organization's development, is a description which aligns itself with this investigator's study. The author further indicated that qualitative data is

derived from interviews with those associated with organizations, observations and existing written records are normally used in historical organizational case studies.² Their definition was well suited to the purpose and major condition presented throughout the body of the study.

Incorporated in this study is the use of qualitative inquiry techniques. A search of the literature provides various researchers' definitions of qualitative inquiry and methods used to gather data that help clarify the process of investigation.

Qualitative Inquiry

Mary Lee Smith (1987) defines qualitative inquiry as being based on the notion of context sensitivity. She states qualitative research is set apart most clearly from other forms of research because of the belief that the particular physical, historical, material and social environment in which people find themselves has a great bearing on what they think and how they act. Acts must be interpreted by drawing on those larger contexts of physical, historical, material and social environments. Qualitative researchers reject the notion of universal context-free generalizations because research takes place in contexts of human and institutional purposes, prior learning and teaching, and in the presence of others. It is further facilitated or inhibited by material and physical resources and it involves personal and

interpersonal histories.³ McMillan and Schumacher (1984) further define qualitative inquiry as a form of collecting data in which an observer (observer-participant or participant-observer) records as much as possible over a period of time. They describe qualitative data analysis as facts presented in narrative rather than numerical form.⁴ Sears (1986) describes the goal of qualitative inquiry as the development of an understanding of the meaning which particular events have for the observer and then placing these meanings within a larger theoretical framework provided by the researcher.⁵

Erickson (1986) in his Handbook of Research on Teaching suggests that qualitative research should contain: empirical assertions; narrative vignettes; quotations from observational field notes and interviews, maps, tables or figures; interpretive commentary; theoretical discussion; and a description of the research process itself. Erickson further describes empirical assertions as statements of findings derived inductively from a review of field notes and a systematic search for confirming and disconfirming evidence on the assertions. In theory, qualitative inquiry is empirical. In essence, the researcher collects sense data about the phenomena under study and examines the study in an organized way. This would include the testing of the data through hypothesis and categorical definitions.⁶

John K. Smith (1983) discusses the differences between quantitative and qualitative inquiry. He states that from

the quantitative perspective, the investigator is separate from the subject matter, facts can be held apart from values, and inquiry should lead to the discovery of regularities that provide the possibility of prediction. From the interpretive perspective, the investigator participates in shaping reality and does not stand independent of what is being investigated. In addition, facts and values are intertwined, and the goal of inquiry is to understand the meaning people give to their lives.⁷

Alan Peshkin (1986) writes that the prespecified intent of quantitative inquiry contrasts with the relatively unspecified intent of qualitative inquiry which fastens on the ordinary, inexhaustible, awful and enormous complexity of the circumstances of the social phenomena we investigate. Since qualitative inquiry is potentially responsive to the totality not the abstraction of an object, it is responsive to that which quantitative research is likely to preclude. Quantitative inquiry finds the ultimate strength in the structure of the controlled experiment. Its findings are not expressed in the multitude of forms that the qualitative research report is allowed to take.⁸

Qualitative Methods

Methodology clarifies what the investigation does in order to claim the result from the research project undertaken. Qualitative methods are the means used to attain the

researcher's goal. Sears (1986) states that the generally accepted methods used for qualitative data collection are:

1. field notes
2. permanent audio and video recordings
3. participant observations
4. surveys
5. formal and informal interviews
6. unobtrusive methods⁹

This investigator used several of the qualitative methods described by Sears. Not listed by Sears but used by this investigator was the review of documents created during the process to resolve a risk financing problem. These documents were analyzed to clarify how critical issues were resolved by the participants.

Miles and Huberman (1984) describe qualitative data as appearing in words rather than numbers. They may have been collected in a variety of ways (observation, interviews, extracts from documents and tape recordings) and are usually organized into an extended text. They state that the derived data is as attractive as a source of well-grounded, rich description and explanation of processes occurring in local contexts. Qualitative data can preserve chronological flow, assess local causality, and perceive fruitful explanations.¹⁰

The methodology used in the research of questions posed in the coordinated effort to resolve a risk financing problem impacting the four-year public colleges and universities included use of both primary and secondary sources. Borg and Gall (1971) defined primary sources as those documents in which the individual observing the event being described was present. Secondary sources were defined as those in which the person describing the event was not present but had obtained a description from someone else who may have directly observed the event.¹¹ Both primary and secondary sources appear in Chapter III and IV of this document.

Good, Barr and Scates (1941) distinguish six characteristics of observation for research. They are:

1. The observation must be specific. There are definite things for which one looks. These things, furthermore, have been carefully defined, so that there is practically nothing left to the judgment of the observer.
2. Scientific observation of behavior is systematic. It is not a chance "dropping in" on a situation at any time when one happens by. The length of the observation periods, the interval between them and the number are carefully planned.
3. The observation is quantitative. The number of instances or the total duration of a particular

conduct is recorded.

4. The record of the observation is made immediately. The results are not entrusted to memory, but notes are made as promptly as possible.
5. The observation should be expert. The researcher needs to be aware of techniques and use them in the observation process.
6. Observation makes claim to be scientific because the results can be checked and substantiated. The procedure can be checked by comparing the results of different observers.¹²

Filstead (1970) describes qualitative methodology as research strategies, such as participant observation, in-depth interviewing, total participation in the activity being investigated, field work, etc., which allow the researcher to obtain first-hand knowledge about the empirical social world in question. Qualitative methodology allows the researcher to "get closer to the data," thereby developing the analytical, conceptual, and categorical components of exploration from the data itself - rather than from the preconceived, rigidly structured, and highly qualified techniques that pigeonhole the empirical social world into operational definitions that the researcher has constructed.¹³

Pearsall (1970) discusses participant observation as a

method used for obtaining valid qualitative data in a manner which is scientifically and philosophically sound, but without harm to the human subjects.¹⁴ In this study, institutional representatives, legislators and consultants were involved in the process and this investigator attempted to chronicle the effort without creating any harm to any of the participants.

Schatzman and Strauss (1973) identified six options involving kinds of involvement in participant observation available to a researcher:

1. The field researcher remains physically outside the situation, as behind a one-way mirror.
2. The field researcher is present in the situation, but observes passively, perhaps from a corner of the room.
3. The researcher engages in clarifying interaction; i.e., seeking clarification and the meaning of events.
4. The researcher controls interaction so as to gather particular information.
5. The researcher is a full participant in activities, although his identity as a researcher is known.
6. The researcher is a full participant in activities, although his identity is not known as a researcher.¹⁵

Considering Schatzman and Strauss' levels of involvement in participant observation, this investigator's technique would be characterized as a full participant and an identified researcher. Schatzman and Strauss (1973) speak to the advantages of the observer being a full participant in the ongoing activities. They state that full participation may allow accessibility to certain situations and information - some not always equally accessible, or not so quickly, to an "outside" researcher. By virtue of participating activity, the "inside" researcher is right there where things happen, and where members talk, argue, confide in him because he is a co-worker, a friend, or actual or potential ally. Also, the researcher shares with other participants in the collective failures and triumphs of group endeavors.¹⁶

Miles (1979) describes qualitative data as attractive for many reasons: "it is rich, full, earthy, holistic, 'real,' its face validity seems unimpeachable, it preserves chronological flow where that is important, and suffers minimally from retrospective distortion, and in principle, offers a far more precise way to assess causality in organizational affairs."¹⁷

In this study, this investigator has made assumptions and established a focus, tracing the process on how autonomous institutions work together. Miles (1979) supports this method of investigation by stating that he believes research projects that pretend to come to the study with no assumptions usually encounter much difficulty. He also

states that a rough working frame needs to be in place near the beginning of fieldwork and that the risk is not that of "imposing a self-binding framework, but that an incoherent, bulky, irrelevant, meaningless set of observations may be produced."¹⁸

Bogdan and Biklen (1982), in their discussion of qualitative research design, suggest that qualitative researchers proceed based on theoretical assumptions (that meaning and process are crucial in understanding human behavior, that descriptive data is what is important to collect, and that analysis is best done inductively) and on data collection traditions (like participant observation, unstructured interviewing, and document analysis).¹⁹

During this investigation, this researcher gathered data by using qualitative data collection methods as described previously. Assuming the role of a full participant along with interviews and analysis of documents were techniques that proved effective in this study. The following information is presented in order to clarify the relationship and data gathering techniques used by this investigator when interfacing with participating groups and organizations.

Investigator's Role in Data Collection

This researcher obtained qualitative data by:

- assuming the role of a full participant while holding membership in the Michigan College and

University Risk Managers Organization (MCURMO).

Data gathered was from primary sources as previously defined by Borg and Gall.

- reviewing all documents created by the Liability Task Force. This investigator did not have access to the task force meetings and therefore data collected was from secondary sources as defined by Borg and Gall.
- reviewing the minutes of the State College and University Presidents Council meetings pertaining to the problem solving effort.
- reviewing documents presented to the Presidents Council Business Officers Subcommittee. Informal interviews with individual business officers were completed to clarify the group's position relating to the presented documents.
- assuming the role of full participant while participating as a member of the Implementation Task Force. This investigator attended all meetings held by the Implementation Task Force and data gathered was from primary sources.
- assuming the role of full participant while participating as a member of the Implementation Task Force Steering Committee, attending all

meetings held by this group. Data used from these meetings can be defined as being from primary sources.

- assuming the role of full participant while chairing the Subcommittee concerned with Loss Prevention and Claims Handling. This investigator attended all meetings held by this group.
- surveying the participating institutions, requesting Enrollment, Financial and Mission Statement information. Also requested was the actual Board of Control and Regent's actions taken relating to entering into a joint agreement with other public institutions.

Aside from observation, review of documentation, actual participation in the development process, interviews, attendance at meetings, seminars, and presentations by various professional groups provided the opportunity to gather data. Memorandums and meeting agenda and minutes provided the researcher a chronological order of events and clarified a sequence of the various occurrences.

Presentations by law firms and insurance brokers also provided insight into the developmental process. Personal interviews with participants included: vice presidents, risk managers, college university legal counsel, whom all represent the four-year public institutions involved in the development

process. Interviews with the Executive Director of the State College and University Presidents Council were very instrumental in clarifying issues and events.

Documents were examined and analyzed. Organizational charts, minutes of meetings and analysis of data developed by insurance consultants proved to be very beneficial in chronicling the effort to resolve a common risk financing problem.

In this study, the researcher was a full participant in the development of the documentation; was involved in decision making; chaired a subcommittee; and was a member of the steering committee whose responsibility it was to direct, coordinate and monitor activities of those participating in the project.

Because of the diversity of size, role and mission of institutions participating in the voluntary effort, a survey of the public colleges and universities was undertaken to clarify each role and mission. In addition, enrollment and financial data were gathered to clarify the diversity of the participating institutions.

RESEARCH QUESTIONS

Research questions selected for this study correspond directly to the major purposes as stated in Chapter I. The

questions addressed in this study were:

1. What process was used by the participants in the search for an alternative form of financing institutional risk?
2. Can autonomous publicly supported institutions in Michigan join together to resolve a common problem impacting individual institutions?
3. Are there identifiable strengths in the development process which are transferable should future joint efforts to resolve common problems be attempted?

Also, this investigator considered two assumptions during the chronicling of the two-year process to solve a common problem. These assumptions were that:

1. Any erosion of institutional autonomy resulting from the collaborative effort would be unacceptable to participating institutions.
2. Any effort by larger institutions to influence or to dominate because of size, the direction or outcome of the effort would be unacceptable to the smaller participating institutions.

SUMMARY

In this investigation, observation, interviews, examination of documentation and actual participation and involvement in the process of resolving a common risk problem, provided this researcher an effective method of analyzing data.

Sears (1986) states that the most important element in conducting qualitative inquiry is the researcher. The ability and skills to organize oneself as well as vast amounts of data, the power to observe the complexities of everyday interaction, and the talent to analyze, integrate and then present the data in an honest and compelling form are essential.²⁰

NOTES

Chapter II

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CHAPTER III

CHRONICLING OF EXPLORATION AND RECOMMENDATION FOR RESOLUTION OF COMMON RISK FINANCING PROBLEM

In Michigan, the publicly funded higher education system is decentralized. The constitution of the State of Michigan recognizes public supported institutions of higher education as separate constitutional entities. The Constitution of the State of Michigan of 1963 granted the colleges and universities in Article 8, Section 5 the following powers:

Section 5: The regents of the University of Michigan and their successors in office shall constitute a body corporate known as the Regents of the University of Michigan; the trustees of Michigan State University and their successors in office shall constitute a body corporate known as the Board of Trustees of Michigan State University; the governors of Wayne State University and their successors in office shall constitute a body corporate known as the Board of Governors of Wayne State University. Each board shall have general supervision of its institution and the control and direction of all expenditures from the institution's funds. Each board shall, as often as necessary, elect a president of the institution under its supervision. He shall be the principal executive officer of the institution, be ex-officio a member of the board without the right to vote and preside at meetings of the board. The board of each institution shall consist of eight members who shall hold office for terms of eight years and who shall be elected as provided by law. The governor shall fill board vacancies by appointment. Each appointee shall hold office until a successor has been nominated and elected as provided by law.

Section 6: Other institutions of higher education established by law having authority to grant baccalaureate degrees shall each be governed by a board of control which shall be a body corporate. The board shall have general supervision of the institution and the control and direction of all expenditures from the institution's funds. It

shall, as often as necessary, elect a president of the institution under its supervision. He shall be the principal executive officer of the institution and be ex-officio a member of the board without the right to vote. The board may elect one of its members or may designate the president, to preside at board meetings. Each board of control shall consist of eight members who shall hold office for terms of eight years, not more than two of which shall expire in the same year, and who shall be appointed by the governor by and with the advice and consent of the senate.¹ Vacancies shall be filled in like manner.

Boards of control of individual institutions have been conferred with supervisory power, including plenary power to control and direct the expenditures of institutional funds, generally to the exclusion of the legislature. Institutions judiciously guard their autonomy and are normally uncompromising when any effort is made to infringe upon their constitutional granted authority. Nonetheless, exchanges of ideas on issues of common interest, benefit the publicly supported state colleges and universities.

The Presidents Council of State Colleges and Universities, a non-incorporated association, was established for the purpose of providing a forum for expressing ideas on issues of common concern to publicly supported institutions of higher education. All presidents of Michigan's public four-year institutions and chancellors of branch campuses make up the membership of the Presidents Council. The Directory of Members and Subcommittees of the Presidents Council (1987) emphasizes that institutional coordination and cooperation is best achieved within a framework of voluntary coordination and cooperation.²

The Presidents Council is chaired by one of the 15 presidents or chancellors and functions with a permanent staff consisting of an Executive Director, Director of Public Affairs and two office support staff. The funding for the operations of the Presidents Council is shared equally by the institutional members of the council.

Addressing of topical institutional issues by the council is accomplished through subcommittees, each of which is comprised of one or more representatives from each of the 15 institutions holding similar responsibilities. Representatives are selected by the respective campus president or chancellor. The primary purpose of each group is to address the interests of the council. The ten subcommittees of the Presidents Council comprise:

- The Academic Affairs Officers
- The Ad-hoc Committee on Economic Development
- The Analytical Studies Committee
- The Business Affairs Officers
- The Coordinating Council for Continuing Higher Education
- The Legal Affairs Officers
- The Legislative Liaison Officers
- The Michigan Inter-University Committee on Information Systems
- The Public Information Officers
- The Space Committee

- The Student Affairs Officers

A high degree of cooperation among the diverse public institutions of Michigan exists. The diversity is best expressed in the mission statements, established by each of the institutions. Annual 1985-86 expenditure levels and enrollment size also provide insight to diversity. The following information is representative of the thirteen public institutions which participated in the project.

Mission Statement of Central Michigan University

Central Michigan University as a public university is dedicated to providing a broad range of educational programs and services. Among its principal responsibilities are the acquisition and transmission of knowledge and the preparation of leaders for all segments of society. Its programs are designed to encourage the development of an intellectual orientation on the part of its students, to provide opportunities for personal and intellectual development, to prepare students for meaningful careers and professions, to encourage students to be concerned about the welfare of humanity and, as thoughtful citizens, to engage in public service. As integral elements of its role as a public university, Central Michigan University seeks to contribute to the general advancement of knowledge through its research efforts and to provide services

for the public good.³

MISSION STATEMENT OF EASTERN MICHIGAN UNIVERSITY

The University Mission is to be a nationally recognized institution at the undergraduate level with emphasis in the Arts and Humanities, Business, Education, Health and Human Services, Science and Mathematics, and Technology, and a nationally recognized institution in selected fields of study at the graduate level. The University Mission is to seek to foster a learning environment in and beyond the classroom which is responsive to the individual capacities and interests of its students on a safe and attractive campus, which acquaints them with the rich variety of intellectual, social, recreational and cultural traditions which are in its custody and which prepares them to pursue life/work goals as alumni and members of the broader society. In rendering services to the public, the University Mission is to respond compassionately to perceived social needs and to provide visionary leadership in identifying and addressing problems and issues within the three traditional areas of instruction, research and public service, as well as the fourth area of contract learning, which the larger society may not as yet be aware. Certainly,

the involvement of alumni and friends is essential to raising additional resources necessary to enhance quality programs and services. In every sphere of institutional functioning, the University Mission is to maintain a position of flexibility, which encourages innovative approaches to all programs and activities, both existing and contemplated, while maintaining emphasis upon improving staff and faculty performance within a broad quality of Work Life program.

The University Mission must also embody a strong commitment to Affirmative Action and to the special concerns of minority groups and women in the offering of programs and in the recruitment of faculty, staff and students. Efforts to recruit students should make every attempt to attract students of quality, students with unique talents and students who seek an opportunity to gain a higher education.

Finally, the University Mission is to encourage an open, humane and cooperative community environment in which institutional goals and principles can be identified collectively and pursued, where open lines of communication between faculty, staff, students, and the administration to the Board of Regents are actively and consistently utilized in the decision making process.⁴

MISSION STATEMENT OF FERRIS STATE COLLEGE

Ferris State College, as a public college, is dedicated to providing a broad range of career-oriented and professional programs and public services to the people of the State of Michigan and beyond. Central to each educational program are two concepts: quality education within the student's chosen discipline and a commitment to a core of liberal studies designed to prepare that student for the responsibilities of life and to function within an ever-changing global society. The College recognizes and welcomes its responsibilities as a career-oriented educational institution, and actively pursues sharing its technical and clinical expertise with people and organizations through programs of public service.⁵

MISSION STATEMENT OF GRAND VALLEY STATE COLLEGE

The mission of Grand Valley State consists of three components: instruction, research, and public service. Established in 1960, the college serves people in the State of Michigan with graduate and undergraduate programs in diverse areas of study. Students are provided with the resources of a small university and the personal, supportive atmosphere of a small college from the main campus in Allendale

as well as centers in Grand Rapids and along the lakeshore. Grand Valley State's curriculum provides a broad spectrum of academic areas for study. Students have the opportunity to major in a liberal arts discipline or prepare for a career in a professional area. All students are required to complete the general education program which embodies the institution's goals of developing critical thinking, self expression and learning skills, and acquainting students with the tradition of humane values and the heritage, problems, and prospects of their own and other cultures.⁶

MISSION STATEMENT OF LAKE SUPERIOR STATE COLLEGE

The mission of Lake Superior State College, which has remained consistent since its founding, is to offer a variety of high quality programs designed to meet the needs of students for a broad general education and to provide a means for a livelihood in occupations needed in our society. The College serves the residents of Michigan who seek a small college environment where the emphasis is on quality teaching.

The College serves a wide and varied geographic area, there being no other baccalaureate institution within 217 miles to the south or 165 miles to the west of LSSC's campus. The College is located in an area of

Michigan's highest unemployment; also a region of low educational attainment. The presence of Lake Superior State College has enabled many families to send a son or daughter to college for the first time. Graduates from the local area are enabled by their education to find employment in more favorable labor markets.

While filling a critical need for its primary service area, the College also serves students from throughout the State of Michigan. As much as eighteen percent of its enrollment comes from southeastern Michigan, and an additional twenty-five to thirty percent of its students come from across the entire lower peninsula. These are students who seek what the College has to offer: strong academic offerings, a small school environment, and an emphasis on the teaching of undergraduates. The College will continue to serve those students whose needs match its particular strengths.⁷

MISSION STATEMENT OF MICHIGAN STATE UNIVERSITY

Michigan State University holds a unique position in the state's educational system. As a respected research and teaching university, it is committed to intellectual leadership, and to excellence in both developing new knowledge and conveying that knowledge to its students and to the public. And

as a pioneer land-grant institution, Michigan State University strives to discover practical uses for theoretical knowledge, and to speed the diffusion of information to residents of the state, the nation, and the world. In fostering both research and its application, this university will continue to be a catalyst for positive intellectual, social, and technological change. Founded in 1855 as an autonomous public institution of higher learning by and for the citizens of Michigan, this institution was in 1863 designated the beneficiary of the Morrill Act endowment. It became one of the earliest land-grant institutions in the United States. Since 1863, Michigan State has evolved into an internationally esteemed university, offering a comprehensive spectrum of programs and attracting gifted professors, staff members, and students. The university seeks excellence in all programs and activities, and this challenge for high achievement creates a dynamic atmosphere. At Michigan State University, instruction, research, and public service are integrated to make the institution an innovative, responsive public resource. As the only land-grant institution in the state, Michigan State University is committed to providing equal educational opportunity to all qualified applicants; to extending knowledge to all people in the state; to melding professional and

technical instruction with quality liberal education; to expanding knowledge as an end in itself as well as on behalf of society; to emphasizing the applications of information; and to contributing to the understanding and the solution of significant societal problems. Michigan State University's adherence to academic freedom and open scholarly inquiry supports these essential academic functions.⁸

MISSION STATEMENT FOR MICHIGAN TECHNOLOGICAL UNIVERSITY

Although only slightly changed from the original legislation following a Constitutional Convention, the enabling State legislation became effective January 1, 1964. In any evaluation of Michigan Technological University, it is important to recognize its unique status: its mission is entrenched in the State of Michigan Constitution of 1964. Hence, although subject to evolving interpretation and implementation, the basic mission of the University is not subject to change. The relevant part of the enabling legislation reads:

"The People of the State of Michigan enact:

390.351 Michigan Technological University; name, purpose. Sec. 1. The institution established in the Upper Peninsula known as the Michigan college of mining and technology, referred to

in the constitution of 1963 as the Michigan college of science and technology, it continued after January 1, 1964, under the name of Michigan Technological University, and shall be maintained for the purpose and under the regulations contained in this act. The institution shall provide the inhabitants of this state with the means of acquiring a thorough knowledge of the mineral industry in its various phases, and of the application of science to industry, as exemplified by the various engineering courses offered at technological institutions, and shall seek to promote the welfare of the industries of the state, insofar as the funds provided shall permit and the board of control shall deem advisable."

In keeping with this legislative mandate, the University mission was interpreted in the 1978 Long-Range Planning (Committee C) Report (approved by the Board of Control May 12, 1978) as:

"To enhance and develop programs in education, scholarship, research, and public service that will, because of their contributions to the satisfaction of important societal needs, bring distinction to the University and its graduates in technologically-related areas. A balance between theory and practice will be emphasized,

along with an appreciation for the development of technology to serve society."⁹

MISSION STATEMENT OF NORTHERN MICHIGAN UNIVERSITY

Northern Michigan University is primarily an undergraduate instructional institution emphasizing liberal arts, teacher education, pre-professional programs, and professional programs in business, health and other areas. The university also offers associate degrees, master's degrees, education specialist degrees, and skills certificates in selected areas of program strength and in response to state and regional need. Committed to helping students with potential to achieve academic success, the University has an experienced and well-qualified faculty and a comprehensive student support system, including a strong financial aid program.

The University also serves the region by providing leadership and sharing expertise in education, business, government and health; contributing to the cultural richness of the region; and providing athletic and recreational opportunities. In addition, it regards the scholarly and creative endeavors of the faculty as vital to its mission.¹⁰

MISSION STATEMENT OF OAKLAND UNIVERSITY

As a state-supported institution of higher education, Oakland University has a three-fold mission. It offers instructional programs of high quality that lead to degrees at the baccalaureate, master's and doctoral levels as well as programs in continuing education; it advances knowledge and promotes the arts through research, scholarship, and creative activity; and it renders significant public service. In all its activities, the university strives to exemplify educational leadership.¹¹

MISSION STATEMENT OF SAGINAW VALLEY STATE COLLEGE

The primary mission of Saginaw Valley State College is to promote the intellectual and personal growth of students. A highly-qualified faculty, most of whom hold terminal degrees, teach in both the day and evening programs. Classes are designed to be relatively small; support services and cocurricular offerings are planned to meet the needs of both residential and commuting students. Periodic program review is used to monitor the quality and the impact of formal and informal learning opportunities. As an important part of its mission, the College fosters research and creative activities. The goals of the research program are to extend

knowledge, inspire superior teaching, and contribute to the intellectual life and social well-being of the region.

Community service is another element of the College mission. SVSC sponsors continuing education courses, conferences, workshops and technology transfer efforts. Cultural events, many campus activities and the College library are open to the public; the library serves as the administrative center of a regional consortium formed to permit resource-sharing. SVSC faculty and staff are encouraged to cooperate with area businesses and civic organizations in ways that contribute to the economic and cultural vitality of the region.

Two commitments are common to the instructional, research and community service components of the College mission. First, SVSC actively cooperates with area community colleges to assure broad access to education and efficient use of resources. Second, SVSC is dedicated to helping students and area citizens acquire the knowledge and skills they need to function effectively in the increasingly interdependent nations of the world.¹²

MISSION STATEMENT OF THE UNIVERSITY OF MICHIGAN

The role and mission of the University of Michigan

is simply stated as being education. No doubt there have been various interpretations and expansions of this as circumstances dictate, but no official statement other than that has been offered at this writing.

MISSION STATEMENT OF WAYNE STATE UNIVERSITY

Wayne State University is a national research university with an urban teaching and service mission. It is a constitutionally autonomous public university within Michigan's system of public colleges and universities. As a national research university, Wayne State is committed to high standards in research and scholarship. In the arts, it fosters creativity and strives for excellence in performance and exhibition. Its first priority is to develop new knowledge and encourage its application. Because it is a national research university, Wayne State develops and maintains strong graduate and professional programs in many fields. To maintain its standards, Wayne State seeks to strengthen those programs that have achieved national recognition while, at the same time, fostering those programs which show promise for the future. Wayne State strives to maintain its performance ranking as

measured by its funded research, the quality of its graduate programs as evaluated by national studies of graduate education, and the effectiveness of all academic programs as assessed by external evaluation. As an urban teaching university, and because its graduates typically remain to live and work in the area throughout their lives, Wayne State seeks especially to serve residents of the greater Detroit metropolitan area, although it enrolls students from across the state and nation as well as foreign lands. It makes available high quality educational programs in more than six hundred fields of study or concentration leading to more than three hundred different degrees at the bachelor's, master's, and doctoral levels. As a nationally ranked university, Wayne State holds high expectations for the educational achievements of its students and consequently maintains selective admissions standards; but as an urban university it recognizes an obligation to develop special avenues that encourage access for promising students from disadvantaged educational backgrounds. The University aspires to implement its curricula in ways that serve the needs of a nontraditional student population that is racially and ethnically diverse, commuting, working, and raising families. Its student body is composed

of students of traditional college age together with many older students, and includes many who are from the first generation in their family or neighborhood to attend a university. In its teaching, the University strives to be sensitive to the special experiences, conditions, and opportunities presented by this diversity in its student body. To meet its obligations to its nontraditional students, the University attempts to schedule classes throughout the metropolitan area and during the evening as well as during the day. Wayne State University recognized its obligation to serve. Like other major universities it strives to serve the disciplines and professions represented among its academic programs as well as public and private sector organizations and associations at local, state, and national levels. As an urban university, it makes a special commitment to the Detroit metropolitan area in three ways: first, it uses its metropolitan locale as a setting for basic and applied research and fosters the development of new knowledge of urban physical and social environments; second, it employs its locale as a teaching laboratory and incorporates metropolitan area materials into its curriculum; and third, it brings knowledge to bear to assist and strengthen the metropolitan area. In particular,

Wayne State University contributes to the economic revitalization of southeastern Michigan through research programs that develop new technology and teaching programs that educate the citizens who will live and work in the region in the coming years. Wayne State University respects and protects the personal and academic freedom of its students, faculty and academic staff. The programs and activities of the University are open to all qualified persons without regard to race, religion, marital status, sex, sexual orientation, age, national or ethnic origin, political belief, or physical handicap, except as may be required by law. The University seeks to demonstrate, through all its programs and activities, its appreciation of human diversity and to maintain an atmosphere of tolerance and mutual respect that will nourish human liberty and democratic citizenship. A relatively youthful state university--part of Michigan's state supported system of higher education only since 1956--Wayne State University has developed rapidly as a national research university with urban teaching and service missions. Nevertheless, it recognizes that much must be achieved before the goals it holds for itself are fully attained. It is pursuing those goals with pride in its progress and confidence in its future. ¹³

MISSION STATEMENT FOR WESTERN MICHIGAN UNIVERSITY

Western Michigan University has evolved over three-quarters of a century into a major, multi-purpose institution. It offers a wide array of undergraduate and graduate programs for students from every county in Michigan, every state in the nation, and many foreign countries. Western reaches an increasingly diverse audience. While retaining its original commitment to good teaching, Western has continually diversified its academic programs, demonstrating a crucial ability to meet both new and traditional academic, human, and societal needs. Its course offerings--formal and informal, credit and non-credit, on and off-campus are utilized by full-time and part-time students, including recent high school graduates, transfers from community colleges, transfer from other four-year schools, graduate students and senior citizens. The expertise of faculty, staff, and students is applied through consultation, public service activities and research to societal problems and needs. Professional resources and facilities are assets employed for public use. The rich and varied schedule of educational, performing arts, cultural, and athletic events is shared with the citizens of the region.

The University offers special programming for young children, practicing professionals, full-time workers, the handicapped, the educationally-disadvantaged, the gifted student, and residents of other communities attending regional centers. Western maintains a tradition of service to individuals, businesses, industries, the professions, and local, state, federal and foreign governments. Western is, and intends to remain, a multi-purpose public university. Western Michigan University has distinctive strengths in its graduate and professional programs which are based on strong foundations in liberal and general education. Western has attracted and retained an outstanding faculty. Several of its departments have achieved national and international recognition. All of these individual elements are mutually supportive and serve as a sound basis for responding positively to the challenges and opportunities of the future.

Western draws considerable strength through close ties to Kalamazoo and other communities in Southwestern Michigan. These are exceptional communities. They are economically prosperous and culturally rich beyond their size, and benefit from a high level of civic awareness and participation. This environment provides valuable opportunities for Western students, faculty, and staff

in which to live, work and grow. As a major regional University, and the only doctoral institution in the area, Western enhances this environment.

Western has a history of academic leadership. From its pioneering contribution to the establishment of standards for teacher certification and programs for continuing education, it evolved, through the addition of business and technical programs, into a multi-purpose institution. This evolution has produced prominence in the arts and sciences, strength in graduate programs, and significant research and public service components that complement its outstanding reputation in education. This new identity was achieved so successfully that Western has been cited as a national model for institutions undergoing similar change. The evolution of new programs, services and directions along with continuing adjustment of all programs, provides clear evidence of Western's willingness and ability to grow, to change, to serve, and to lead.¹⁴

Annual 1985-86 Expenditures of Public Institutions - Figure 1

<u>Institutions</u>	<u>Expenditures and Transfers 1985-86</u>
Central Michigan University	\$113,274,985
Eastern Michigan University	103,669,143
Ferris State College	76,936,306
Grand Valley State College	42,712,133
Lake Superior State College	18,912,640
Michigan State University	533,082,575
Michigan Technological University	68,053,023
Northern Michigan University	59,416,914
Oakland University	70,387,000
Saginaw Valley State College	20,712,277
University of Michigan	979,568,008
Wayne State University	227,635,063
Western Michigan University	138,911,000

Note: Source of information -- audited Financial Statements of listed institutions

Fall 1985 Enrollment of Public Institutions - Figure 1:A

<u>Institutions</u>	<u>Fall Enrollment 1985</u>
Central Michigan University	17,070
Eastern Michigan University	21,315
Ferris State College	10,909
Grand Valley State College	7,667
Lake Superior State College	2,692
Michigan State University	42,746
Michigan Technological University	6,537
Northern Michigan University	7,702
Oakland University	12,586
Saginaw Valley State College	4,970
University of Michigan	34,353
Wayne State University	28,424
Western Michigan University	20,963

Note: Source of information -- Michigan Department of Management and Budget H.E.I.D.I. Database, House Fiscal Agency Institutional Profile, Dated February 1987

The uniqueness and diversity of the publicly supported colleges and universities of Michigan is evidenced in their stated missions, annual expenditures and enrollment size.

From Wayne State University, an urban institution with an enrollment of 28,424 and annual expenditures in excess of \$227,000,000, to the small college environment found at Lake Superior State College in the upper peninsula of Michigan with an enrollment of 2,692 and annual expenditures of \$19,000,000, the State of Michigan system of higher education provides the citizenry of the state, nation and world the broad choice of academic programming. While the institutions within the publicly supported higher education system are diverse, they all have a common interest in providing research, scholarships, and public service, independent of one another and within the authority granted by the Constitution of the State.

In the case of a common risk financing problem, there was recognition by institutional administrators that finding a resolution to this problem could be accomplished by voluntarily working together. This effort would require cooperative efforts not only among institutions, but also extensive coordinated efforts by the Presidents Council and its subcommittees. The coordination of Business Officers, Legal Affairs Officers and Legislative Liaison Officers Subcommittees by the Executive Director of the Presidents Council would prove to be a crucial ingredient in the successful resolution of the problem. This would be demonstrated throughout this study.

The following groups and organizations made contributions

to research and development of resolution to a common risk financing problem affecting publicly supported institutions of higher education and are referenced throughout this study.

Boards of Governors, Regents and Control of public institutions of higher education in Michigan have the responsibility of governing their respective institutions. The boards have general supervision over their respective institutions, control and direct expenditures of institutional funds.

The Presidents Council of State Colleges and Universities is an organization in which membership is comprised of 15 presidents and chancellors of the publicly supported institutions of higher education of Michigan. The purpose of this organization is to provide a forum for exchanging ideas on issues and problems of common concern.

The Business Officer Subcommittee is an organization whose membership is comprised of chief institutional financial officers. This organization is a subcommittee of the Presidents Council and has a primary purpose of addressing common financial issues of the Presidents Council.

The Legislative Liaison Officers Subcommittee of the Presidents Council is an organization whose membership is comprised of institutional representatives responsible for keeping institutions and the Presidents Council apprised of legislative action which may affect public higher education.

The Legal Affairs Officers Subcommittee is an organization whose membership is comprised of institutional legal officers. The responsibility of this subcommittee is to keep both individual institutions and the Presidents Council current on legal issues which might impact the publicly supported institutions of higher education.

The Michigan College and University Risk Managers Officers Organization (MCURMO) is comprised of administrators who are responsible for institutional insurance and risk management programs. They normally report to the chief institutional financial officer, but have no direct affiliation with the Presidents Council.

Legal consultants were representatives of a legal firm hired by the Presidents Council to give opinions pertaining to the legality of the various issues addressed by the Liability and Implementation Task Forces.

Actuarial consultants were representative of an insurance brokerage firm hired by the Presidents Council to provide the group with cost information and how to fund future payments of expected insurance losses by the institutions. The actuarial consultants would also represent the institutions in the procurement of excess commercial insurance.

The two-year process undertaken to resolve the risk financing problem impacting the public colleges and

universities in Michigan began in August 1985. Four defined stages (see Figure 2) were involved in the study and included: consideration of the problem, formation of a Liability Task Force, the implementation and operational stages. The group's effort resulted in the formation and operation of a non-profit corporation. This corporation would provide certain liability insurance coverages for those institutions agreeing to participate in the joint venture.

On August 2, 1985, the summer meeting of the Michigan College and University Risk Management Organization (MCURMO) was held at Lake Superior State College. On the eleven item agenda was a topic for discussion entitled, "Discussion on alternatives to the present methods of purchasing insurance and transferring risks; i.e., options that may be reviewed to maintain liability retention and premium costs at acceptable levels."¹⁵

Many of the members had completed July 1, 1985 insurance renewals on behalf of their institutions. Those in attendance expressed frustration and concern because of the lack of a competitive insurance market. Administrators, in many instances, had been told by insurance companies that should prices and coverages being offered not be acceptable, then other entities were eagerly waiting to purchase their product. There was a general feeling that since no other choices were presently available, the institutions were being held hostage by the insurance industry. The discussion item lead to a

Figure 2

**DEVELOPMENT STAGES
OF
MICHIGAN HIGHER EDUCATION GROUP SELF-INSURANCE AND
RISK MANAGEMENT FACILITY, INC.**

Stages

Consideration of the Problem -- August 2, 1985

At the quarterly meeting of the Michigan College and University Risk Management Organization, the group requested that the representative from the University of Michigan present to the Michigan Business Officer's Organization, the group's desire to explore alternatives to commercial insurance. Commercial insurance had been the traditional method of financing institutional risks in Michigan. The presentation was made to the Business Affairs Officers on August 17, 1985.

PHASE I

Formation of Task Force -- September 10, 1985

As a result of favorable acceptance of the presentation, a Liability Task Force, comprised of ten college and university administrators was formed. The initial charge of the task force was to: 1) review self-insurance as a loss mechanism at individual institutions, 2) review funding alternatives including the establishment of captive insurance entities and other cooperative ventures and 3) monitor legislative actions related to the Michigan situation.

Implementation -- January 20, 1987

The task force formed on September 10, 1985 was expanded and specific committees were formed. The group established a goal of having an alternative to commercial insurance available to the institutions by July 1, 1987.

PHASE II

Operational -- June 25, 1987

The Michigan Higher Education Group Self-Insurance and Risk Management Facility, Inc. was established as a non-profit corporation on May 23, 1987. On June 25, 1987, ten Michigan public supported institutions signed a participation agreement.

decision by the group to have a MCURMO representative present to the Michigan Business Officer's Organization, the group's desire to have public colleges and universities explore alternative methods of financing institutional risk.

While there was a unanimous decision to make a presentation, skepticism was expressed by several members of the organization concerning the likelihood of anything constructive being accomplished from the presentation. Previous difficulties involving the purchasing of commercial insurance, resulted in studies directed toward seeking alternatives to commercial insurance by the public institutions of Michigan. There had been participation in these efforts by MCURMO members and because of the lack of any constructive results from these extensive studies, members found it difficult to be totally committed to revisiting this problem.

To understand the group's expressed skepticism requires a description of a past effort by institutions to jointly develop a self-insurance pool. There was a desire on the part of the state legislature in fiscal year 1975 to have public colleges and universities explore and possibly pool institutional risks. As a result, Public Act 263 of the Public Acts of 1975 contained in Section 22 a statement of legislative intent "that the public colleges and universities shall cooperatively develop a self-insurance pool plan...". It was intended by public act 263 that the suggested plan encompass financing for direct loss to real and personal

property for which the universities are responsible and insuring against medical malpractice claims.

In January 1976, the Presidents Council of State Colleges and Universities submitted to the legislature the following response to Section 22, of Public Act 263.

"The Council has spent many hours in studying the question of insurance costs and investigating whether alternative arrangements would be cheaper and feasible. The Council concludes that:

- 1) the very act of studying the question and of coordinating insurance activities among the schools has dramatically reduced property insurance costs for Council institutions;
- 2) no further savings can be identified from a self-administered insurance pool;
- 3) any alternative insuring arrangement would have to deliver professional services presently received by the institutions from commercial carriers;
- 4) continued interchange of insurance data and information is a valuable management tool for Council institutions;
- 5) unfunded self-insurance, or unfunded insurance pools, are in fact no insurance at all, and are not an acceptable management alternative to present practices; and
- 6) only the State of Michigan has the resources to establish a fully-funded professional mutual insurance company for the benefit of the Council institutions.

The Council recommends, in compliance with the appropriation act for 1975-76, that the state conduct its own investigation into establishment of a fully-funded professional insurance company."¹⁶

It was apparent in 1976 that public colleges and universities in Michigan were not interested in working together on any effort to pool institutional risks. Remembering the results of 1976, many MCURMO members had serious reservations concerning pooling arrangements. Despite these concerns, the Risk Manager from the University of Michigan was chosen to represent the members of MCURMO at the State College and University Business Officers summer meeting which was to be held on Beaver Island on August 16, 1985.

The concerns of MCURMO were presented to the Presidents Council's Business Officers Subcommittee on August 16, 1985. The favorable acceptance of the presentation, resulted in a decision to hold a joint meeting of Business Affairs Officers and Risk Management Officers to further consider some sort of action that might deflect the impact of the commercial insurance on the public colleges and universities.

Prior to the September tenth meeting, suggestions were developed by the Risk Manager from the University of Michigan on behalf of the MCURMO organization and distributed to the Business Officers and MCURMO members by the Executive Director of the Presidents Council.

The suggestions were that the Michigan College and University Risk Management Officers Association be:

- requested to review self-insurance as a loss funding mechanism in individual institutions,

including loss projections, reserving policies, premium charge systems, claims handling, internal/external administration and long-range planning.

- requested to review funding alternatives above the foreseeable loss area and below practical commercial insurance layering.
- requested to investigate the commercial insurance pool concept for excess insurance coverages.¹⁷

The Executive Director of the Presidents Council had been in attendance at the summer meeting of the Business Affairs Officers and assumed the responsibility of coordinating the group meeting. At the meeting held on September tenth in Lansing at the State Bar Building, a group decision was made to form a subcommittee comprised of four risk managers, four business officers, one legal officer and the Executive Director of the Presidents Council for the purpose of examining the liability insurance problem. Selection to the subcommittee was based on the willingness to serve. There was consensus that the composition of the committee should be representative of business officers, risk managers and legal officers allowing for review of the problem from different administrative perspectives.

The subcommittee would assume the title of "The Liability Task Force." Institutional and administrative representatives serving on the task force included:

<u>Institutions</u>	<u>Administrative Representatives</u>
Eastern Michigan Univ. (MCURMO Chair)	Director, Risk Management
Michigan State Univ.	Risk Manager
Oakland Univ.	Asst. Vice President of Risk Management
Univ. of Michigan	Risk Manager
Eastern Michigan Univ.	V.P. Business and Finance
Michigan State Univ.	Controller
Northern Michigan Univ.	V.P. for Finance and Administration
Wayne State Univ.	Asst. Vice President and Controller
Wayne State Univ.	General Counsel
Presidents Council	Executive Director

The initial charge given to the subcommittee at the September 10, 1985 meeting by those in attendance was to:

- review self insurance as a loss funding mechanism in individual institutions, including loss projects establishment of reserves, premium charge systems, claims handling, internal/external administration and long-range planning.
- review funding alternatives, including the establishment of captive insurance entities and other cooperative ventures.
- monitor legislative actions related to the Michigan insurance situation.

The original suggestions of the MCURMO representatives were the foundation from which the charge to the Liability Insurance Subcommittee was developed. The original suggestions provided that only the University Risk Management Organization investigate and report findings. The decision to have a committee comprised of business officers, risk managers and legal officers would prove to be extremely advantageous as communication among the participating groups would prove to be difficult.

The MCURMO representatives assigned to the task force were requested to put together documentation concerning liability insurance problems. This meeting took place on September 12, 1985, and resulted in a position paper reflecting their thoughts and concerns relating to the liability insurance crisis affecting the public colleges and universities in Michigan. The report discussed the cyclical nature of the insurance industry and stated opinions on the causes of the insurance crisis. This report was disseminated to task force members, business officers, and risk managers. The immediacy of the action taken by the MCURMO representatives of the task force emphasized the seriousness and willingness of the MCURMO task force members to pursue a solution to the current liability crisis.

On September 24, 1985, the Executive Director of the Presidents Council reported to the Presidents Council on activities underway with the Council Committees. He

informed the council that a subcommittee consisting of representatives from the Business Affairs Subcommittee, Risk Managers and Legal Affairs Committees had been established to develop recommendations for Council consideration on the liability insurance crisis.

The first meeting of the full Liability Crisis Task Force took place on September 26, 1985, and was held at the State Bar Building in Lansing Michigan. The task force agenda was generated and meeting called by the newly elected chairperson, the Vice President for Business and Finance from Eastern Michigan University. The ten-item agenda was highlighted by the recognition of the need to develop a synthesized summary of the cost of increases in both property and liability coverage being experienced by all institutions. Because the cost summary information would be requested from institutional risk managers, the Risk Manager from Eastern Michigan University, who was serving as the chair of MCURMO, was given the responsibility of gathering the required data and reporting findings to the task force.

The Executive Director of the Presidents Council suggested the consolidated information would be valuable in describing the problems being encountered to others on the individual campuses. There was also consideration that this information might be useful should the Presidents Council approach the legislature for financial relief because of current difficulties being experienced in the commercial

insurance market.

During this meeting a discussion was initiated by the Risk Manager from the University of Michigan concerning a possible approach which could be used to provide relief from the current insurance crisis. The concept of the formation of a three-tiered program was discussed. The three-level approach was described as follows:

- the first level of the program would require each institution to pay for any losses experienced up to an expected loss level.
- the second level of the program would be at the point where institutions would pool risk.
- the third level of the program would be a group purchase of commercial insurance to respond to any catastrophic loss which might occur.

Eventually, this three-tiered approach would become an important concept used in concluding an alternative solution to commercially purchased insurance.

Also discussed was the need of some method of evaluating institutional exposures in a uniform way. In order for the institutions to identify a cooperative alternative to commercial insurance, it would be necessary to provide a common way of evaluating risks at each institution. The recognition of the need to evaluate institutional risks was important, but

this consideration was premature. Eventually the concept of standardization of institutional risk reporting would be necessary and was addressed later in the study.

The 1985 fall meeting of the Michigan College and University Risk Managers Organization (MCURMO) was held at Northern Michigan University on October 21, 1985. The Risk Manager for Michigan State University surveyed the group on behalf of the Liability Task Force attempting to identify each institution's current opinion of the concept of joining together to pool risk and self insure. The following opinions were expressed at the October 21, 1987 meeting by the MCURMO members representing each institution:

<u>Institutions</u>	<u>Opinion of Pooling</u>
Central Michigan Univ.	The representative was open minded to change but Central Michigan University was not interested in helping cover other institutions' losses.
Eastern Michigan Univ.	The representative was open minded but had a concern with a quasi-government agency going into private business.
Ferris State College	The representative did not believe that pooling would work. Efforts in the past proved unsuccessful and there was no reason to anticipate any change.
Grand Valley State College	The representative indicated that their administration would evaluate the recommendation of the task force and then make a decision.

Lake Superior State College	The representative did not believe that the institutions would agree to pool.
Michigan State Univ.	The representative was skeptical of the possibility of pooling and was concerned that all the institutions make long-term commitment to any agreement. The representative did not like the idea of pooling.
Michigan Technological Univ.	The representative did not like the idea of pooling.
Northern Michigan Univ.	The representative was concerned on how costs would be shared should there be pooling.
Oakland Univ.	The representative from Oakland, who was a member of the Liability Task Force, indicated that the Financial Officers were excited about the concept of pooling and he was also.
Saginaw Valley State College	The representative did not like the idea of pooling.
Univ. of Michigan	A representative did not attend the meeting.
Wayne State Univ.	The representative was skeptical of pooling.
Western Michigan Univ.	The representative was not in favor of any pooling arrangements.

Despite the formation of the Liability Task Force on September 10, 1985, it was evident that the early skepticism of the MCURMO organization still remained.

The Liability Task Force met again on October 31, 1985, and reviewed a six-item agenda. The meeting focused on comparison reports of premiums paid by the thirteen state

supported colleges and universities for property and liability insurance coverage. The information gathered at the request of the task force by the MCURMO chair provided the Liability Task Force with a two-year premium comparison, significant changes in coverages and anticipated future changes in policy conditions.

The premiums paid by the thirteen state supported colleges and universities for property and liability coverages in fiscal year 1984-85 amounted to \$7,214,034. The cost for the same type of coverages in fiscal year 1985-86 totaled \$14,832,811.

Significant changes in coverage in 1985-86 renewals of commercial coverage resulted in changes in the following provisions from the previous years coverages:

1. Limits of liability were reduced.
2. Exclusion of coverage for all pollution; asbestos; trampolines; Police Professional; injuries sustained during athletic participation were among those added to the policies.
3. Deductibles were increased.
4. Claims handling charges were added.

Future changes in policy conditions from the colleges and universities renewing liability policies during the last

quarter of 1985, all of 1986 and possibly 1987 would more than likely result in:

1. Increased costs
2. Decreased limits of liability
3. Higher deductibles applied
4. Further restrictions (reductions) in coverage
5. Unavailability of coverage for Directors & Officers, Liquor and Police Professional
6. Claims made in lieu of occurrence basis policies
7. Defense costs included in the policy limits¹⁸

The consolidated information received from individual institutions verified the scope of the problem and presented the evidence, further justifying the need for the task force to continue its efforts.

On December 4, 1985, the Presidents Council, under the direction of the Executive Director of the Council, provided a day-long seminar on the campus of Michigan State University. The purpose of the seminar was to provide information explaining alternatives which might be available to the institutions. Representatives invited to attend included risk managers, business affairs officers, legal affairs officers and legislature liaison officers. This

informational seminar provided additional information on captive insurance companies and cooperative self-insurance ventures.

The President of Vermont Insurance Management Inc. informed the group of the process that needed to be followed in order to form a captive insurance company in the State of Vermont.

The second presentation by a representative of the Michigan Municipal League discussed how municipalities in Michigan found it advantageous to pool risks. Municipalities in Michigan are allowed to pool risks as a result of P.A. 1982 No. 138. This statutory act authorizes contracts between municipal corporations to form self-insurance pools, and to prescribe conditions for the performance of those contracts.

As a result of the day-long seminar, the attendees more fully understood the complexity of joining together to pool risk. Institutional representatives expressed an interest in knowing what the requirement of a timeframe might be to have an alternative available and operational. Both presenters indicated it could take 16 to 18 months to have a self-insurance program up and running. It became evident from the information presented that the institutions were a long way from concluding any joint pooling arrangement. It also was clear that there would be no relief available from commercial insurance in time for July 1, 1986 renewal of

institutional insurance programs.

After four months of addressing the various issues, a formal report entitled "The Property and Liability Insurance Crisis" was distributed to the Business Officers Subcommittee of the Presidents Council on January 16, 1986. The information developed in the report concluded that the insurance problems would continue for the foreseeable future and requested the Business Affairs Officers to solicit the Presidents Council requesting authorization for the task force to proceed and select actuarial consultants to assist in the accomplishment of actuarial studies for all institutions. The consultants, along with the task force, would then be required to conduct further analysis of the potential for establishing either a captive insurance company or a cooperative self-insurance pool in conformity with P.A. 1982, No. 138.

The task force's preliminary estimate of costs for consulting services was \$80,000. The study was expected to take approximately nine months to complete. A determination regarding the viability of the two alternatives and appropriate recommendations would be made to the Presidents Council after completion of the study. The task force would receive a signal of seriousness of intent from the institutions' Presidents if such a significant amount of money was committed to the project.

The task force also made recommendations concerning supporting legislative reform and changes in insurance industry regulations. While monitoring legislative actions relating to the Michigan insurance situation was part of the initial charge of the task force, most of the emphasis in the problem solving effort would be directed toward determining available alternatives.

The recommendation to the business officers by the Liability Task Force to request \$80,000 to continue their work was approved by the Presidents Council on January 28, 1987. These funds were to address liability issues only. An additional \$30,000 was allocated to the project upon the recommendation of the business officers. These additional funds were to be used in analyzing the potential cost savings of pooled property coverage should it be included in any pooling arrangement. It should be noted the inclusion of property coverage was a concept that originated with the MCURMO organization and recommended by business officers to the Liability Task Force. The business officers felt that since the study was being undertaken, it would be appropriate to examine both property and casualty exposures.

On February 13, 1986, a meeting of the task force was held on the campus of the University of Michigan. The major concern of the task force at this meeting was development of specifications for a "request for proposal."

The task force developed a request for proposal which had a stated purpose of seeking a comprehensive loss potential identification and assessment study that would respond to specific casualty exposures. Those responding would be required to formalize plans that would systemically fund losses and finance risks for each of the thirteen colleges and universities.

These proposals were sent to eleven professional firms on February 2, 1986. The Liability Task Force received and evaluated ten written responses from interested firms. The resulting evaluation by the task force would narrow the number of firms for further consideration to four.

Representatives from these firms were required to make a formal presentation to the task force on the campus of Eastern Michigan University on April 3, 1986.

Criteria for final selection of a firm were:

1. experience and knowledge of higher education
2. clear understanding of the problem
3. balance between analysis, recommendations
and innovative ideas
4. motivation of the presenters as perceived
by the task force members

As a result of the written proposals and interviews

conducted by the task force, an actuarial firm was chosen to provide services as requested in the proposal.

With the choice of consultants complete, the task force, MCURMO members and actuarial consultants met on the campus of Michigan State University on April 28, 1986. At this meeting, the major topic of discussion involved a Risk Profile questionnaire which had been developed by the consultants and distributed at the meeting.

The concept of developing a common method of evaluating individual institutional liability exposures had been considered by the task force prior to the selection of actuarial consultants. The risk profile was developed to serve this purpose. The information taken from the profile would be used in the actuarial studies for both the individual and aggregate institutional reports. The seventeen page Risk Profile requested the following information from each institution:

1. enrollment data
2. financial data
3. facilities information
4. athletic programs and affiliations
5. campus security force
6. professional liability exposures
7. institutional liquor regulations
8. owned watercraft and aircraft

9. owned automobiles
10. institutional broadcasting and publishing facilities
11. institutional health care facilities
12. five-year loss history

At this first meeting, the institutional risk managers and actuarial consultants had disagreement concerning information requested by the consultants. The consultants desired information concerning the premiums each institution paid for current year insurance coverages (1985-86). The actuarial consultants stated that the need for premium information was based upon exposure evaluation by insurance companies and therefore was required for actuarial work. The Risk Managers were of the opinion that increased premiums were not justified by institutional loss experiences and therefore the premium information was not necessary for the institutional actuarial studies. The risk managers were also concerned that actuarial consultants were representing a large insurance brokerage firm, whose major purpose was to secure commercial insurance for clients. With this in mind, the institutional risk managers were concerned about unfair advantage in future marketing of commercial insurance for individual institutions or pool, should one be formed.

The desires of the risk managers prevailed, and premium information was not made available to the consultants. The risk profile questionnaire was also modified reflecting the recommendations of the risk managers and distributed to each

institution on May 9, 1986. The profiles were required to be submitted to the actuarial consultants by June 6, 1986.

On May 16, 1986, a meeting of the MCURMO group took place on the campus of Grand Valley State College. Representatives of the actuarial firm were available to discuss difficulties institutional risk managers might be experiencing in gathering data for the institutional risk profiles.

At this meeting, the group was informed of the University of Michigan's intent to form a captive insurance company. The company was to provide certain liability coverages for the institution and be incorporated in the State of Vermont. University administrators were preparing to request and receive approval to form the captive company from their Board of Regents on June 19, 1986. The University of Michigan representative assured the group that the University would continue to participate in the joint effort currently underway.

April 18, 1986 correspondence addressed to the Chairperson of the Liability Task Force affirmed the Legal Affairs Subcommittee of the Presidents Council's opinion of the need for outside legal assistance as the liability study moved forward. It was the Legal Subcommittee's opinion that the actuarial consultants should retain legal counsel in order to provide a legally sound report to the Presidents Council. There was also recognition that there might be a need to

renegotiate the fees being paid to the actuarial consultants.

The task force made a decision to develop a request for proposal for legal services and distributed the request for assistance to four Michigan law firms on August 1, 1986. The response to the task force's request was to address:

1. experience of the firm in the establishment
of voluntary cooperative self insurance pool
and/or captive insurance companies
2. which attorney(s) in the firm would be
assigned

The proposal also stated that selection of a firm would be heavily weighted in favor of companies having demonstrated prior experience in similar activities and having demonstrated familiarity with existing and potential future federal and Michigan state legislation affecting public colleges and universities.

Selection of legal counsel was made by the Chairperson of the Liability Task Force, the Executive Director of the Presidents Council, the Assistant General Counsel for the University of Michigan and Associate General Counsel for Wayne State University. The remaining members of the Liability Task Force were informed of the selection of legal counsel in a September 16, 1986 memorandum from the Chairperson of the Liability Task Force.

To date, the entire task force had been directly involved in all the major decisions affecting the study. The selection of legal counsel was a departure from this involvement and several task force members expressed their displeasure. Their concern was not the choice of selected legal consultants, but the fact that all task force representatives were not consulted and allowed input. The Chairperson of the task force informed the task force that the selection process had been altered in order to expedite the selection process.

During the period between the May 16 meeting of MCURMO group and the next formal meeting of the task force on October 21, 1986, difficulties arose because of delayed receipt of risk profile studies. These studies were to be made available to actuarial consultants by June 6, 1986. On June 19, 1986, the actuarial consultants were in receipt of 12 of 13 risk profiles. The University of Michigan would eventually submit only limited information to the actuarial consultants.

The original target date for completion and submittal of actuarial studies to the task force was July 25, 1986. Because of the delayed reporting, the receipt of actuarial reports did not take place until September 10, 1986.

The announcement of the decision of the University of Michigan's intent to form a captive insurance company and the limited responses to the request for information for the actuarial studies would be the first indicator that the

unified problem solving approach was running into difficulties.

On October 21, 1986, a meeting involving the task force, actuarial consultants, legal consultants, business affairs and risk managers was held in Lansing at the request of the Executive Director of the Presidents Council. At this meeting, actuarial studies were discussed in detail. Risk managers were informed on how the actuarial consultants had developed summaries on cost data for completed individual and group studies. Also previewed were the actuarial consultant's analysis of several possible alternatives that could be used in pooling arrangements. The legal consultants indicated that they would provide the task force with "conceptual" conclusions concerning the advantages and disadvantages of potential risk sharing arrangements presented by the actuarial consultants in the latter part of November 1986.

The MCURMO group met on the campus of Eastern Michigan University on October 30, 1986. Several important recommendations made at this meeting were forwarded to the entire task force by the chairperson of MCURMO. It was the group's recommendation that the actuarial consultants refine the actuarial studies so that they would reflect a three layer funding approach as shown in Figure 3:

1. a self funding of expected losses

PROPOSED THREE-TIERED POOLING ARRANGEMENT

General Liability

Errors & Omissions Liability

1	Institutional Expected Loss Level	1
2	Risk-Sharing (Pool) Level	2
3	Excess Insurance	3

1. Expected Loss Levels

Each institution would be required to fund its own expected losses.

2. Risk-Sharing Facility Level

If the total losses experienced at the individual institutions should exceed the aggregate expected loss level for Errors and Omissions or General Liability, the Risk-Sharing level would be responsible for losses up to the excess commercial insurance.

3. Excess Insurance

If the experienced losses should exceed the risk-sharing (pool), then purchased commercial insurance would provide the third layer.

Figure 3

2. consortium funding to a level suitable and economical
3. purchase excess commercial insurance as a group

The group recommended that any pooling arrangement should provide insurance coverages for the following liability exposures:

- General Liability
- Errors and Omissions
- Liquor Liability
- Police Professional Liability

It was also recommended that the pooling arrangement not include property coverage. There appeared to be no significant cost savings from pooling property risk and members felt the coverages offered in the commercial markets were meeting the needs of the institutions.

Finally the risk managers requested that the Liability Task Force copy institutional risk managers on correspondence (reports, etc.) to business officers, legal officers, presidents, and/or other institutional officers in order to keep the group abreast of activities. These recommendations would be unanimously accepted by the Liability Task Force.

On November 26, 1986, legal consultants presented the Insurance Task Force members with a 43-page document

developed for the stated purpose of:

"examining the property and casualty insurance needs of state colleges and universities, to analyze alternatives to traditional commercial insurance and to assess the applicable law with respect to various alternatives."¹⁹

The three alternatives that were considered by the task force were reviewed by legal consultants resulting in the following analysis:

1. Michigan Higher Education Risk-Sharing Facility

The name was coined by the legal consultants and would operate pursuant to a joint agreement among participating institutions. It was the opinion of the legal consultants that the "facility would not be, in a technical sense, an insurance company, but rather, an arm of the constitutionally-based and autonomous institutions of higher education." It was their view that the Michigan Insurance Code should not be held to apply to such a facility. However, a ruling from an appropriate state official, such as the Attorney General, would be desirable to confirm the conclusion of the inapplicability of the Insurance Code.

2. Higher Education Pool Under 1982 P.A. 138

The 1982 P.A. 138 authorizes municipal corporations to pool their casualty property,

automobile, surety and fidelity coverages.

The Insurance Commissioner is excluded from regulating pools under Public Act 138.

The legal consultants indicated that it would be necessary to amend Act 138 to have it apply to state colleges and universities.

3. Captive Company

Under the laws of various jurisdictions, both within and outside the United States, special provision is made for the creation and operation of captive insurance companies.

The focus of formation of an insurance company was in the State of Vermont where formation of such companies is allowed under the law.²⁰

The legal report also examined four questions relating to the desire of the public colleges and universities to establish a risk sharing vehicle which would pool exposure and provide potential for cost savings.

Questions Examined by Legal Consultants:

1. Can state institutions of higher education share the risk of loss and resulting expenditures for property, casualty and liability exposures?
2. Would a higher education risk sharing facility be subject to existing laws regulating the business of insurance?

3. Could the legislature impose regulations on a higher education risk sharing facility?
4. Do any other constitutional provisions prevent the establishment of a pooling arrangement under Article 8 by the institutions?²¹

Summary answers of the 41-page document submitted to the task force by legal consultants indicated that:

- state colleges and universities may undertake to pool their risk of loss, using either a higher education risk sharing facility, a higher education pool under 1982 P.A. (assuming the necessary statutory amendment), or by forming a captive insurance company.
- it appeared that a higher education risk sharing facility would be the most advantageous vehicle providing that the Michigan Insurance Code would be inapplicable to the Facility. An opinion of the Attorney General to this effort would be desirable.
- any effort by the legislature, through the Michigan Insurance Code or otherwise, to impose regulation upon risk-sharing among institutions should be held to transgress the constitutional autonomy of the institutions and their power to manage

their own affairs and to control their own expenditures.

- other constitutional provisions do not present irremediable problems to the creation of a Higher Education Risk-Sharing Facility, a 1982 P.A. 138 pool, nor a captive insurance company.²²

The legal consultants' report was focused on questions concerning how each one of the choices would be affected by outside state agencies or legislative action. While not explicitly stated, it was implied by the questions asked that no vehicle would be agreed to if institutional autonomy was jeopardized.

On December 4, 1986, a final report and recommendations were presented at a meeting of institutional business officers and legal officers by the Executive Director of the Presidents Council. The consolidated document was a completion of the work of the task force, legal consultants and actuarial consultants. The highlights of the report were as follows:

- the task force recommended the establishment of the first phase of a risk sharing venture covering specific risks which had been most difficult for the institutions to secure coverage. Those coverages were: Trustees and

Officers Liability, Comprehensive General Liability, Dramshop Liability (Liquor Liability), and Police Professional Liability.

- coverages be provided in a multi-tiered approach with institutions funding anticipated losses, intermediate level losses being covered by a pooled facility, and the possibility of purchasing commercial insurance (if available) for the third level.
- the group pursue three alternatives on risk sharing facility (coined by legal consultants), a P.A. 138 pool and a traditional captive simultaneously. Three alternatives, listed in order of preference by the group, required simultaneous exploration, should there be need for a fall-back position if the preferred vehicle proved to be problematic.
- the governance of the chosen pool be accomplished by an Executive Board composed of each of the participating institutions with each institution appointing two representatives. Voting rights of the Board be allocated by formula recognizing the significant variance in financial participation. The Board would elect officers, develop bylaws, procedures and coverage documents. The Board

would employ appropriate staff and consultants.

- all funds would be under the exclusive control of the Board and could be expended only for paying claims, defending claims, administrative costs and consulting costs.

Listed were the initial calculations anticipated for the institutional financial investment in the Facility. The consolidated financial data were derived from information on the institutional risk profiles.

<u>Institutions</u>	<u>Premiums and Admin. Costs</u>	<u>Capital</u>	<u>1st Year Total</u>
C.M.U.	\$ 256,650	\$ 113,750	\$ 370,400
E.M.U.	260,350	115,350	375,700
F.S.C.	194,300	94,200	288,500
G.V.S.C.	153,700	68,500	222,200
L.S.S.C.	100,400	43,600	144,000
M.S.U.	591,650	235,850	827,500
M.T.U.	194,350	82,550	276,900
N.M.U.	165,750	73,050	238,800
O.U.	232,350	98,350	330,700
S.V.S.C.	118,650	51,250	169,900
U. of M.	644,750	257,650	902,400
W.S.U.	318,500	137,800	456,300
W.M.U.	294,700	127,000	421,700
	-----	-----	-----
TOTALS	\$3,526,100	\$1,498,900	\$5,025,000 ²³

It should be recognized that the recommendation concerning governance suggested that institutional voting rights should be allocated by a formula based on the variance of financial participation. This would put control of the joint

effort in the hands of the larger institutions. The previous schedule of anticipated financial contributions verified the possibility of control by the larger institutions under the governing scenario recommended by the task force report:

- all institutions must make a five-year commitment to whatever vehicle is chosen.
- the timetable established for date of initial operation of the facility should be July 1, 1987, with individual institutions making a decision no later than April 1, 1987, on their intent to participate in the joint program.²⁴

The recommendation from actuarial consultants' report indicated that twelve institutions needed to participate. They did qualify their position by stating that the group's size might be less than 12, but the proper balance of large and small members had to be maintained.

While the documents presented to the business officers were lengthy, the important aspects in the documents have been previously described. Upon review of the documents, the business officers accepted the efforts of the task force and unanimously recommended a presentation be made to the Presidents Council and requested that an implementation phase begin immediately.

The Liability Task Force Report was formally presented to the Presidents Council members on December 16, 1986. The following information was taken from the December 16, 1986 minutes of the General Meeting of the Presidents Council:

"The chair of the Liability Task Force reported that essentially the recommended insurance program would provide more comprehensive liability insurance and significant coverage improvements for the institutions as well as cost savings. He stated the report and recommendations were approved by the Business Affairs Officers at their meeting on December 4. The proposal was being transmitted to the Council for action.

One President observed the necessity for discussions with individual institutional boards before giving a binding commitment of participation. He thought it would be unfair for several institutions to pull out of the program at a later date and possibly leave some institutions suspended. In response to questions raised, the chair of the Liability Task Force noted that the cost figures contained in the report are computed on the assumption that all institutions will be participating in the program. The final figures will depend on the number of institutions participating, and would be recalculated when that number is determined. The Executive Director of the Presidents Council said that intent in bringing the proposal before the Council was to receive Council support to move on to the next phase of the study; that was, to determine which of the recommended vehicles for a cooperative program offers the best advantages. Further it was requested that each Council member designate two representatives to serve on an interim governance committee (Implementation Task Force). Upon final resolution of all legal and financial issues, each institution would have the opportunity to decide whether it wished to participate in the program.

Another Council member requested that future issues for Council consideration be drafted with specific recommendations and placed before them before discussion. The same Council member then moved that individual institutions convey their decision regarding participating in writing to

the Council office no later than April 1, 1987, and that each institution designate two individuals to represent their institution during the next and final phase of the study. The motion was then seconded and approved by the Council."²⁵

With the presentation and acceptance of the Insurance Task Force Report and Proposal to the Presidents Council, the first phase of the study was completed.

On December 19, 1986, the Northern Michigan University's Board of Control was informed of the status of the Liability Task Force's progress and of the presentation which had been made to the Presidents Council on December 16, 1986. The board indicated their support of the project by giving authorization to the administration to join in a pooling arrangement should it prove to be in the best interests of the institution. Northern Michigan University became the first institution with board authority to join in a pooling arrangement with other Michigan supported institutions of Higher Education.

SUMMARY

The initial phase of the Exploration and Recommendation for Resolution of a common risk financing problem began in August 1985 and lasted for a period of fifteen months. This phase of the process dealt with the gathering of data which would be used for purposes of:

1. verifying the need to proceed with a cooperative joint problem solving effort.
2. identification of the institutional exposures which should be incorporated into any pooling arrangements.
3. identification of possible pooling arrangements which might prove acceptable to each college and university.

During this period of the study, much of the data used for verification of the problem was gathered by individual institutional administrators responsible for risk management programs. The task force then consolidated this information into documents which provided identification of the problem from the viewpoint of the entire publicly supported Higher Education System.

The data needed for identification of institutional exposures were also gathered by institutional risk managers. This information was used in the development of institutional and aggregate actuarial studies.

The importance of this initial data gathering stage cannot be overstated. The accuracy and completeness of the risk manager's work was the foundation on which the entire funding levels for the pool were established.

Another important element in this phase of the study

was the recognition of the need for additional outside actuarial and legal expertise. The willingness of the Presidents Council to allocate substantial funding for these services was a clear indication that this project was important and council members were desirous of a cooperative solution.

The identification of possible pooling arrangements and legal implications of these concepts were researched by the consultants. Their findings and recommendations were provided to the Presidents Council members with a comprehensive presentation of alternatives which could prove attractive to each institution.

While difficult work had been completed during the first fifteen months of the initial phase of the study, difficult decisions and unanticipated problems would confront administrators in the second phase of group effort.

NOTES

Chapter III

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8. Michigan State University Academic Programs 1987-1988, "Mission Statement," Vol. 81, No. 4, p. vii-viii.
9. Mission Statement, Michigan Technological University, 1978.
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12. Bulletin of Saginaw Valley State College, 1987-88, "Mission Statement," 1987, p. 3.
13. Bulletin of Wayne State University, 1987-89, "Mission Statement," 1987, p. 6.
14. Western Michigan University Policy Handbook, 1984-85, "Mission of Western Michigan University," 1984, p. 289-290.

15. Agenda item from August 2, 1985 meeting of Michigan College and University Risk Management Organization.
16. Richard Miller, Memorandum to the Presidents Council of State Colleges and Universities Business Officers Subcommittee, 13 January 1976.
17. Glenn R. Stevens, Memorandum to the Presidents Council of State Colleges and Universities Business Officers Subcommittee, 21 August 1985.
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20. Ibid., p. 3-6.
21. Ibid., p. 8.
22. Ibid., p. 41.
23. "Insurance Task Force, Report and Proposal to Business Officers of the State College and Universities," 4 December 1986, p. 17.
24. Ibid., p. 17-18.
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CHAPTER IV

CHRONICLING OF IMPLEMENTATION AND INITIAL OPERATION OF AN ALTERNATIVE TO TRADITIONAL RISK FINANCING METHODS

The second phase of the joint effort undertaken to work toward a cooperative solution to the insurance problems being encountered by the publicly supported institutions of higher education began in January 1987. The difficult issues and necessary compromises would test the resolve of the participants to see the project to a successful conclusion.

The MCURMO organization met on January 15, 1987 at Central Michigan University following the approval of the Presidents Council to proceed with the joint pooling concept. The major portion of the meeting was dedicated to discussion concerning the future direction of the joint risk sharing project. By this time, institutional representatives in attendance were aware of a desire of the Council to proceed and implement an alternative to commercial insurance by July 1, 1987.

Now that a specific operational target date had been established, the MCURMO members began to discuss specific issues which they felt needed to be addressed. The group recognized the need to:

- have the actuarial consultants develop new

cost data for various limits of insurance coverages being considered for the joint program.

- clearly understand the alternatives which were being considered for the proposed pooling arrangement.
- develop a participation agreement which would outline understanding how risks would be shared, how losses would be settled, and what type of organizational structure would be necessary to manage the pool.
- have all participating institutions report their losses to the pool in uniform reporting procedure. It was the group's recommendation that the pool hire a claims handling service. It was the feeling of the group that institutions should have the choice of using the claims handling service hired by the pool, or use another alternative should it be called for.
- have the Implementation Task Force give serious consideration to hiring permanent employee(s) to handle the day-to-day operational issues required for any developed program.¹

The members spent a significant amount of time

discussing the funding requirements of the pool. The major concern of the group was the gap that would exist between total financial contributions of the institutions and the limits of insurance coverages for which the pool would be responsible. The example used in the group discussion on the issue was as follows:

Should participating institutions contribute three million dollars to the pool and the pool insures the institutions for limits of ten million dollars, there would be a gap of unfunded monies of seven million dollars. Should a loss occur that would require the pool to pay losses in excess of the actual premium contributions, an additional assessment would have to be made to each institution. It was brought out that the likelihood of an assessment was highly remote.²

The issue of assessment would eventually be addressed in the final agreement signed by participating institutions.

It was evident to this researcher that the group was making every attempt to accommodate the needs of each potential member. An illustration of this accommodation involved the recommendations relating to claims handling methodology. Because of the expressed need of one institution to maintain its current method of handling claims, the group suggested

a method be developed to allow for both the individual institution's claims handling requirements and a uniform claims handling procedure for the rest of the participating institutions.

These specific issues were not formally presented to the Implementation Task Force. However, since each MCURMO member would serve on the Implementation Task Force, the group's concerns and views would be presented within a subcommittee structure.

The initial meeting of the Implementation Task Force was held on January 20, 1987 in Lansing, Michigan. Two designated representatives from each institution met to review and consider the group's action plan. Prior to this meeting, the Liability Task Force developed organizational flow charts. Figure 4 depicts five subcommittees and lists intended charges to each committee. A Steering Committee comprised of chairs of the individual subcommittees, the chair of the Implementation Task Force and the Executive Director of the Presidents Council was to oversee, direct, coordinate and monitor the activities of the Implementation Task Force. Figure 5 depicts the composition and assignment of institutional members to the five subcommittees and Steering Committee.

The MCURMO chairperson assigned to the original task force was interviewed by this investigator to determine

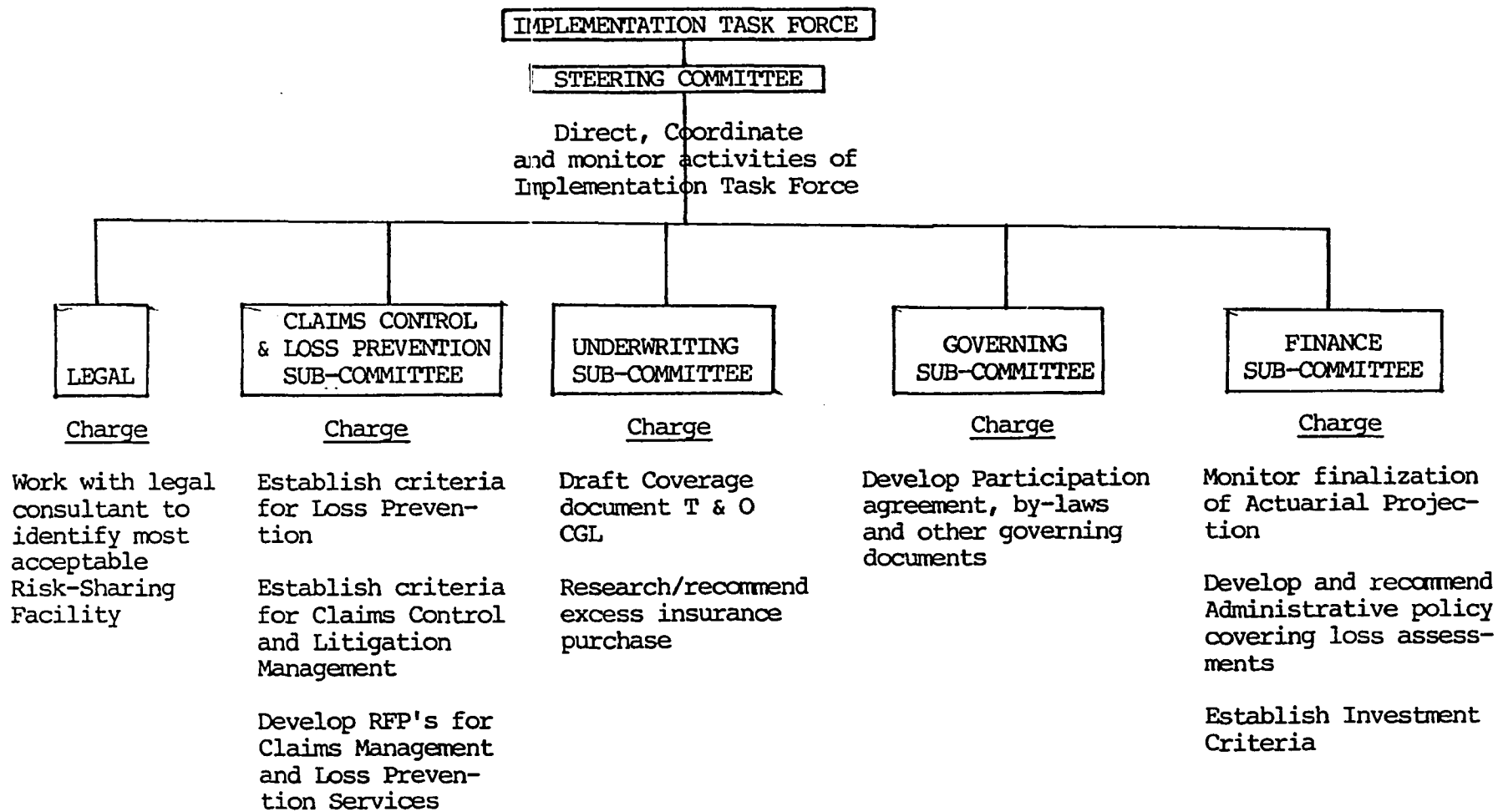


Figure 4 Organization of Subcommittee Structure

IMPLEMENTATION TASK FORCE

Steering Committee

Eastern Michigan University - (EMU)

Oakland University - (OU)

University of Michigan - (UM)

Ferris State College - (FSC)

Northern Michigan University - (NMU)

Michigan State University - (MSU)

Executive Director of Presidents Council--Ex-Officio

SUB-COMMITTEES

LEGAL	CLAIMS CONTROL AND LOSS PREVENTION	UNDERWRITING	GOVERNING	FINANCE
OU	FSC	MSU	UM	NMU
WSU	OU	NMU	EMU	WMU
WMU	SVSC	OU	GVSC	WSU
UM	MSU	CMU	MTU	MTU
EMU	SVSC	GVSC	WSU	CMU
	UM	SVSC	LSSC	FSC

FIGURE 5 Organization of Administration Assignment to Sub-Committees

what criteria were used to assign membership to subcommittees. According to her recollections, assignments were based upon:

1. a desire by the task force to have a balanced mix of both large and small institutions on each subcommittee insuring that interests of the institutions of various sizes were met.
2. a determination of expertise of each administrator and their interests in the topic being researched within the subcommittee.

At this first meeting, the legal consultants discussed the need to pursue three paths for the listed chosen alternatives as presented to the Presidents Council. Their plan was to simultaneously pursue an Attorney General's opinion, verifying the legality of a Higher Education Risk Sharing Facility, while pursuing legislative amendments to P.A. 138 and researching the potential of forming a captive company. The legal consultants stated that should the first or second alternative prove to be unavailable, then the third alternative of forming a captive insurance company would be used as a fall-back position.

The five subcommittees met immediately after the Implementation Task Force's session and established dates for completing each specific charge. This researcher chaired the Subcommittee on Claims Handling and Loss

Prevention. The major difficulties and issues addressed by this subcommittee will be discussed in this study.

Following the January 20, 1987 meeting, the chair of the Implementation Task Force received correspondence from the University of Michigan's risk manager. The risk manager felt it necessary to reaffirm the status and function of the University's recently formed captive insurance company. The correspondence also referred to the current efforts of the institutions and suggested the thirteen Michigan colleges and universities did not constitute what is generally regarded in the risk management profession as an appropriate group for cooperative self-insurance. His rationale for taking this position resulted from his opinion that profound differences in institutional philosophy, size, financial resources and risk management program development were too great. This correspondence eventually would be distributed to the task force and resulted in no substantive discussions. This investigator could not determine whether there was a general feeling among participants that institutional differences would be too great to overcome during the entire study process. However, this correspondence was the first written reference to the potential problem of diversity.

The initial meeting of the Steering Committee was held in Lansing on February 3, 1986. The status of the subcommittee's work was discussed and the Steering Committee was

updated on the schedule of future meetings.

The Executive Director of the Presidents Council gave an update on the work being done with the legislature and the Attorney General. He reported that the Higher Education Risk Sharing Facility concept was discussed informally with the Attorney General. The Executive Director expressed the belief that these discussions were well received and the topic was not subject to any negative feedback. The Attorney General was to be approached requesting a formal opinion by the legal consultants.

The Speaker of the Michigan House of Representatives was also approached and asked to support legislative amendments to 1982 P.A. 138. According to the Executive Director, the speaker supported the institutions' desire to pool. The Executive Director was concerned about creating extra work by pursuing both legislature change and an Attorney General's opinion simultaneously. When this concern was raised with the Speaker of the House, the Executive Director was assured this would not be a problem and the Speaker reaffirmed his desire to see the group succeed.

The Steering Committee expressed concern about the status of the potential association that was to be formed. The members wanted to know if the entity being formed would be a nonprofit corporation or other business enterprise. The chair of the Implementation Task Force stated

he would approach the legal consultants asking for a determination and identification of the type of entity by the February 17, 1987 meeting of the Implementation Task Force.

The first meeting of the Claims Control and Loss Prevention Subcommittee was held on January 27, 1987. Assuming the role of full participant, this investigator was able to document occurrences which took place during this subcommittee meeting. As previously discussed, the charge of the subcommittee required the establishment of loss prevention policies, the establishment of criteria for claims control and litigation management and the development of Request for Proposals for claims management and loss prevention services for the pool.

The most difficult problem that the subcommittee would encounter was the problem of serving "two masters." Subcommittee members needed to keep the interest of their respective institutions in mind when making decisions concerning interests of the facility. For example, in the loss prevention policy, the pool was to provide institutional loss control evaluations. As a result of evaluation, institutions might be required to carry out recommended changes when cited for loss prevention action. As the group discussed this issue, each member recognized the need to develop a disciplinary approach to those institutions not responding to the requested loss prevention changes. They

could be imposing potential penalties on their respective institutions. The group understood that placing excessive demands on institutions by the pool would not be acceptable to individual institutional administrators. However, they also recognized that a strong commitment to loss prevention was a key to any successful pooling arrangement.

The major policy issues which needed to be addressed by this subcommittee involved settlement of claims and defense of claims. Specific policies would eventually be written into a participating agreement developed by the Implementation Task Force. The committee resolved issues by taking the position that the pool was similar in nature to commercial insurance. When questions were raised by members of the Implementation Task Force about settlement and defense of claims policies, the subcommittee presented the opinion that these policies offered the same advantages as those being currently provided by commercial insurance carriers.

The Claims Control and Loss Prevention Subcommittee would meet several more times and was able to complete the Implementation Task Force's charge to the committee.

On February 6, 1987, the Board of Trustees of Michigan State University approved the university's participation in the Higher Education pooling concept in the following motion:

On a motion by a board member, supported by a board member, the board voted to approve the Michigan State University's participation in the Risk-Sharing Facility currently being developed by the Council of Presidents of Michigan State Colleges and Universities for the purpose of providing excess liability coverage, provided that apparent advantages will accrue to the University.

Both the Implementation Task Force and the Steering Committee met on February 17, 1987. The Implementation Task Force met in the early afternoon and received individual subcommittee reports. As of February 17, the Claims Control and Loss Prevention Subcommittee had completed the first draft of their work. The Underwriting Subcommittee had completed the final draft of their work. The Governance Subcommittee requested drafts from other subcommittees and upon coordination with legal and other subcommittees, a governance document was to be available soon after drafts of all subcommittees' documents had been reviewed.

The Finance Subcommittee was close to final recommendations which needed review by the Legal Subcommittee. The Finance Subcommittee recommended coverage limits for the pool at one million per occurrence, three million aggregate for Trustees and Officers coverage and one million per occurrence, five million aggregate for Comprehensive General Liability coverage.

The Finance Subcommittee further recommended that coverages be provided to members in a three-tiered approach.

Each institution would fund its own expected losses at the first level. The second level losses would be covered by a pooled facility at the recommended coverage limits. The third level of coverage would be provided by excess commercial insurance purchased by the pool. It was anticipated that limits of excess insurance should be \$25,000,000.

The legal consultants then presented the following proposed amendments to 1982 P.A. 138 to the Implementation Task Force.

Proposed Amendments to 1982 PA 138 (MCLA 124.1 et seq.)

Sec. 1. For the purposes of this act, "municipal corporation" shall mean THE BOARD OF A STATE INSTITUTION OF HIGHER EDUCATION EXISTING PURSUANT TO THE CONSTITUTION OF 1963, ARTICLE 8, SECTIONS 5 OR 6, OR any county, charter county, county road commission, township, charter township, city, village, school district, intermediate school district, community college district, metropolitan district, court district, public authority, or drainage district as defined by act No. 40 of the Public Acts of 1956, as amended, being sections 280.1 to 280.630 of the Michigan Compiled Laws, or any other local governmental authority or local agency with power to enter into contractual undertakings.

Sec. 5(3). A group self-insurance pool shall obtain excess insurance or reinsure risk AS NECESSARY OR ADVISABLE IN THE JUDGMENT OF ITS GOVERNING AUTHORITY and may assume, cede, and sell risk for coverages set forth in subsection (1).

Sec. 7(a)(iii). The amount of insurance to be purchased by the pool to provide coverage over and above the claims which are not to be satisfied directly from the pool's resources, IF ANY.

Sec. 7(a)(iv). The amount of aggregate excess insurance coverage to be purchased in the event that the group self-insurance pool's resources are exhausted in a given fiscal period which shall be IN AN AMOUNT DEEMED NECESSARY OR ADVISABLE IN THE JUDGMENT OF THE GOVERNING AUTHORITY OF THE POOL.⁴

The Executive Director of the Presidents Council, the chair of the Implementation Task Force and legal consultants were working on previously highlighted changes to P.A. 138 which would allow college and university participation. The legal consultants also stated they were anticipating an Attorney General's favorable opinion concerning the institutions' constitutional authority to pool risk.

The chair of the Implementation Task Force then requested a briefing from each institutional representative, informing the group how institutional boards of trustees were being approached concerning the project. The representatives' responses were as follows:

Western Michigan University - The board was aware of the project and would be updated in March on the progress. The institutional representative believed the board was taking a wait and see attitude.

Saginaw Valley State College - The board had been updated once and the administration intended to present information on March 9, 1987.

Grand Valley State College - The board was to meet in early May and information would be presented to them at that session.

Northern Michigan University - The board had been briefed twice and the board requested that

administration make a recommendation concerning participation.

Oakland University - The board was to be briefed in March. There would be no decision until the board saw all the information. If they could view all the documents in April, they would decide in May.

Central Michigan University - The board was briefed in November and January and would be briefed in March. The administration indicated that a decision was anticipated in April.

Lake Superior State College - The board had been briefed in January and would be briefed again in March. A decision was expected in March or May.

University of Michigan - The administration normally does not bring insurance matters before the trustees. However, the opinion expressed was that the trustees would accept the recommendations of the administration.

Eastern Michigan University - The board was presented with information in February and a decision was anticipated in late March or April.

Michigan State University - The board was presented with information in February and the

board delegated authority to administration to decide once all documents were complete.

Wayne State University - The board would be updated in February and March. It was anticipated that a decision would be made in May.

Michigan Technological University - The board would be updated in March and a decision would be made in May.

Ferris State College - The board had been updated in January and February and a decision would be made in April.

After hearing the current positions, it became evident that many institutions would not be able to commit to a joint agreement by April 1, 1987, as requested by the Presidents Council at their December 1986 meeting.

The afternoon meeting of the Steering Committee helped clarify informational flow. Because of the extensive documentation being created by the subcommittees, there needed to be an established methodology for review of the draft documents. Chairpersons of the subcommittees were instructed to send all their documents to all Implementation Task Force members. All comments and requested changes concerning distributed documents were to go back to the chairs of the subcommittees for further action. The Steering Committee set

a target date for having final completion and distribution of all documents to the Implementation Task Force members by April 3, 1987.

The pooling efforts would experience an unexpected turn of events the week of February 16, 1987. An article published in the Business Insurance Weekly Report of February 16, 1987 entitled "Godsend or Gamble?" raised serious questions about the financial stability of the Michigan Municipal Risk Management Authority.⁵ This pool was formed in Michigan under 1982 P.A. 138. Whether or not the concerns discussed in the article had validity, the article resulted in an immediate action by a member of the Michigan House of Representatives, requesting amendments to 1982 P.A. 138.

The recommended amendments would have essentially required pools formed under P.A. 138 to become subject to regulation under the insurance code. The new provisions would require:

- the level of aggregate coverage be subject to review and approval by the Insurance Commissioner;
- pools to meet minimum capitalization standards which usually exist for casualty insurance companies under the insurance code;
- financial statements to be filed with the Insurance Commissioner;

- pools to obtain an independent actuarial certification of loss reserves annually;
- pools to be subject to examination by the Insurance Commissioner and be further required to take action according to the Commissioner's instructions to correct and findings of non-compliance or financial inadequacies as defined by the insurance code.⁶

On February 26, 1987, the Steering Committee, along with actuarial and legal consultants, met in Lansing. The discussions began with a review of the Governing Subcommittee's outline of a participant agreement.

The Legal Subcommittee had met and reviewed the outline of the agreement on February 24, 1987. The chair of the Implementation Task Force, who also served on the Legal Subcommittee, discussed the subcommittee's concerns with the Steering Committee. The Governing Subcommittee's recommendation of 26 board members (two from each institution) serving on the governing board was a concern of the Legal Subcommittee. It was their opinion that a 26 person board was too large and the board might find it difficult to effectively deal with issues in a timely manner. They envisioned a board comprised of 13 members with subcommittees made up of board members. These subcommittees were to have specific reporting responsibilities and serve at the pleasure

of the entire board. The Legal Subcommittee also recommended one vote per institution on all board matters. The Steering Committee concurred with the recommendations of the Legal Subcommittee and would bring their recommendations to the full Implementation Task Force for consideration.

The legal consultants then brought the Steering Committee up-to-date on the current status of legislation and prepared the appropriate correspondence requesting an opinion from the Attorney General on the legality of forming a Higher Education Risk Sharing Facility. The request was now in the hands of the Attorney General. The Executive Director of the Presidents Council requested an opinion from the Attorney General concerning the following issues:

- Do institutions of higher education existing pursuant to Const. 1963, Art. 8, SS 4, 5 and 6 have inherent constitutional power to pool their risk?
- Would the formation and operation of such a group self-insurance pool be subject to the Michigan Insurance Code?

The article addressing the financial difficulties of Michigan Municipal Risk Management Authority and the subsequent desire of the legislature to have the Michigan Insurance Commissioner oversee pools formed under P.A. 138 were discussed. Because of the potential possible legislative action concerning P.A. 138 and pools being formed under this act being subject to regulation of the insurance bureaucracy, the

Executive Director of the Presidents Council and the legal consultants informed the Steering Committee of the need to introduce new legislation. This legislation was intended to give the public colleges and universities their own self-insurance bill which would not be subject to regulation by the Insurance Commissioner.

The actuarial consultants brought to the attention of the Steering Committee the need to resolve the method of addressing the question of how the pool was going to provide for the potential assessment for each institution. The actuarial consultants stated that the commercial excess insurance companies would require the individual institutions to set aside, in some form, their share of the potential assessment. Several Steering Committee members expressed displeasure with this requirement. Their contention that no institution had ever defaulted any financial obligation would not, however, prove to be an acceptable argument against requiring total funding of any limits established for the pool. The assessment issue would be a source of discussion throughout the entire implementation phase of the study. The meeting concluded with the Steering Committee recognizing the necessity of having the participation agreement refined to the satisfaction of each institution.

The Executive Director of the Presidents Council received the first declaration of an institution's decision

not to participate in the sharing of risks with other four year publicly supported institutions in Michigan on March 11, 1987. Saginaw Valley State College's board of control did not believe the limits of coverages offered in the pooling arrangement would be sufficient. Secondly, the additional cost to join the group would be too great. The Vice President of Business for Saginaw Valley State College in his correspondence to the Executive Director, stated should significant improvements in the limits of coverage provided by the facility be achieved and costs to Saginaw Valley State College adjusted downward, then a special board meeting would be called to consider the matter further.

The Steering Committee met again on March 16, 1987, and reviewed in detail the documents created by the individual subcommittees. Also, some discussion involved the notification of Saginaw Valley State College's intent not to participate. The Steering Committee discussed the possibility of allowing institutions to choose the type of coverage which would prove to be financially advantageous. The resulting decision by the group reaffirmed the Finance Subcommittee's recommendations requiring members to participate in both the Comprehensive General Liability and Trustees and Officers Liability coverage programs. The group recognized that if each institution chose only the optimum coverage, there might not be enough total participation in one or other of the coverages to provide adequate

funding for the pool.

The Finance Subcommittee also recommended each institution be required to commit to the program for five years and give a two-year irrevocable prior notice of intent to withdraw. Institutions desiring to withdraw after fulfillment of their five year commitment and providing appropriate notice of a wish to withdraw would receive a refund of the initial capital contribution made to the pool.

The Legal Subcommittee presented the Steering Committee with a seventeen page document entitled, "Group Self-Insurance and Risk-Management Facility Participation Agreement." (See Appendix B.) This document would undergo numerous drafts before all participating institutions would be completely satisfied with the content of the document. The sections entitled "Membership, Coverages, Payments, Withdrawal of Members, Dissolution, Board of Directors, General Powers of the Board of Directors, Fiscal Operations, Claims Adjustment Policies and Effect of Agreement," would be refined to the satisfaction of business officers, legal affairs officers, risk managers, presidents, institutional board members and consultants. The document would incorporate all the major issues which institutions wanted addressed in any agreement of joint participation.

Discussion took place on the anticipated legislation which would be presented to the legislature requesting action allowing the colleges and universities to pool risks. The

Executive Director informed the Steering Committee of his intent to approach the appropriate legislators to give guidance in this matter.

The Executive Director met with legislators on March 18, 1987, and introduced a draft of House Bill 4407. This legislation was being sought from the House of Representative's Colleges and Universities Committee for the specific purpose of obtaining legislative approval to pool risk. The Executive Director felt there was support for an entitled act cited as the state colleges and universities self-insurance act. The legislators were presented with the following draft of the bill for review.

A bill to authorize the creation and operation of a self-insurance pool among the governing board of institutions of higher education created in or existing pursuant to sections 5 and 6 of article VIII of the state constitution of 1963; to prescribe the terms of its operation; and to provide for certain powers and duties of certain state officers.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

Sec. 1. This act shall be known and may be cited as "the state colleges and universities self-insurance act."

Sec. 2. As used in this act:

(a) "Governing board" means a board of regents, board of trustees, board of governors, board of control, or other governing body of an institution of higher education.

(b) "Institution of higher education" means an institution of higher education existing pursuant to

section 5 or 6 of article VIII of the state constitution of 1963.

(c) "Pool" means a group self-insurance pool created pursuant to this act.

Sec. 3. (1) The governing board of two or more institutions of higher education may create and operate an actuarially sound group self-insurance pool to provide coverage for any risks, other than health care coverage or life coverage, on behalf of their respective institutions pursuant to this act. The pool may not be used to satisfy the indemnification reserve fund requirements under Act. No. 315 of the Public Acts of 1977, being sections 390.1121 to 390.1131 of the Michigan Compiled Laws.

(2) A group self-insurance pool created pursuant to this act shall be formed as a business corporation, nonprofit corporation, or limited partnership pursuant to an agreement between the governing boards of participating institutions of higher education. The powers of the pool shall be exercised equally by the institution of higher education participating in the pool. Each institution of higher education participating in the pool shall have equal representation on the pool's governing body. Each institution's governing board shall appoint a qualified representative to the pool's governing body who shall submit a written report on a regular basis to the governing board of his or her respective institution.

(3) A pool shall be formed and governed by an agreement among the institutions of higher education participating in the pool. The agreement shall set forth all of the following:

(a) The manner and method of determining the initial and subsequent financial contributions required of participating institutions.

(b) The manner and method of establishing the coverages provided by the pool.

(c) The terms and conditions of withdrawal from and dissolution of the pool.

(d) The rights of participating institutions.

(e) The obligations imposed on participating institutions.

(f) Other provisions considered necessary or appropriate by the signatories to the agreement.

Sec. 4. A pool created pursuant to this act shall do all of the following:

(a) Establish initial and subsequent financial contributions based upon actuarial recommendations.

(b) Endeavor to operate effective risk management and loss control programs for and by participating institutions.

(c) Annually prepare and distribute an audit to each participating institution detailing the financial position, operating results, and risk management programs of the pool.

(d) Establish and maintain reserves expected, based upon actuarial recommendations, to be sufficient, together with authorized assessments, if any, to meet the financial obligations of the pool to its participating institutions.

(e) Include with the audit prepared and distributed pursuant to subdivision (c) a certification by an independent actuary that the reserves, together with authorized assessments, are sufficient to meet the financial obligations of the pool to its participating institutions.

Sec. 5. The assets of a pool shall be invested according to prudent investment practices and such investments shall be disclosed to all participating institutions annually.

Sec. 6. The creation and operation of a pool and any liabilities created thereunder shall not be obligations of the state.

Sec. 7. A pool shall not be an insurer and its operation shall not be considered the transacting of an insurance or surety business or the making of insurance or surety contracts.

Sec. 8. A pool shall have the powers granted to it by this act and by its agreement, to the extent those powers are not inconsistent with this act and which are necessary and convenient to its intended purpose as provided in section 3(1), and may bind its participating institutions only to the extent provided in or pursuant to the agreement. A pool shall not engage in a business or activity other than providing coverage for risks of its participating institutions as provided in section 3(1).

Sec. 9. The financial records of a pool shall be

available to the auditor general or a certified public accountant appointed by the auditor general.

The Steering Committee met on March 25, 1987, and the major discussion items involved the most recent draft of the participation agreement and the pending legislation which the Steering Committee had recommended for legislative action.

Steering Committee members were concerned about the language in the participation agreement referring to the pooling arrangement in insurance terminology. For example, the committee felt the need to insert the words "indemnification" for insurance coverage and "periodic payment" for premiums. The clarification of terminology was to clearly stipulate the pooling arrangement was not a commercial insurance company and would not be interpreted as such by any regulatory agency.

The question of institutional commitment to the pool was revisited. The Steering Committee had previously accepted the recommendations of the Finance Subcommittee requiring a five year commitment from participating institutions with a two year withdrawal notice. It was felt there needed to be a restatement of both the facility and withdrawing institution's responsibilities. The committee restated that institutions giving two years notice of intent to withdraw after a five year commitment would have initial capital paid into the facility returned. The importance of the withdrawal portion of the

participation agreement was emphasized because of one major reason. Should a number of institutions decide to withdraw, there needed to be a sufficient amount of time to determine whether the facility could remain operational.

Since this pool was accessible and the indemnification coverage was written on occurrence basis, the committee felt it necessary to include the possibility of assessments to member institutions after withdrawal. Claims could be settled for a member institution after withdrawal and they could be accessible for those claims.

The Executive Director of the Presidents Council updated the committee on the bill requesting legislation allowing institutions to pool risk. It was the intent that bill HB 4407 be introduced on March 26, 1987, to the House of Representatives Colleges and Universities Committee. It was anticipated that the legislation would be ordered out of committee, onto the floor of the House of Representatives the week of March 30, 1987. It was further anticipated that total legislative action would take from two to three weeks.

The Colleges and Universities Committee hearing on HB 4407 held on March 26, 1987 did not go as well as expected. The House of Representatives Colleges and Universities Committee refused to take action on the bill. The committee had not heard from institutional legislative liaison representatives who normally give input concerning institutional

opinions on legislation affecting public state colleges and universities.

In addition, the Executive Director of the Presidents Council was given three pages of questions concerning HB 4407 to which the Colleges and Universities Committee requested answers, prior to taking any further action. It should be noted that the Executive Director responded the same day to the concerns of the Colleges and Universities Committee, attempting not to have the legislative process slowed.

The House Committee of Colleges and Universities met again on April 8, 1987. The committee had drafted a substitute bill for the original HB 4407 which had been submitted to the committee by the Executive Director of the Presidents Council. Changes to the substitute bill would have placed the pool under the examination of the State Insurance Commissioner.

The major change in the amended legislation involved an additional section to HB 4407. The added section included the following:

If the pool fails to provide to the commissioner of insurance the audited financial statement as required by section 10(d) or the certification by an independent actuary that the reserves together with authorized assessments are sufficient

to meet the financial obligations of the pool as required by section 10(e), or if the audited financial statement required by section 10(d) and the certification required by section 10(e) show that the reserves of the pool, together with authorized assessments, are inadequate to meet the financial obligations of the pool, the commissioner of insurance may perform examinations of the pool to assure that the pool is in a sound financial condition and operating in accordance with this act. The examinations shall be conducted in the same manner as those conducted for casualty insurers under the insurance code of 1956, Act. N. 218 of the Public Acts of 1956, being sections 500.100 to 500.8302 of the Michigan Compiled Laws. After conducting the examination, the commissioner of insurance may make recommendations to the pool with regard to the financial condition of the pool. Within 120 days after receiving the recommendations, the pool shall notify the commissioner of insurance of the pool's response to the recommendations and detailing any corrective action to be taken by the pool with respect to the financial condition of the pool. If the commissioner of insurance determines the pool's response to his or her recommendations and proposed corrective action is inadequate, he or she shall report his or her findings together with the pool's response to the governing boards of participating institutions of higher education, the legislature, and the governor.

This added Section provided the insurance commissioner with the authority to examine but not control the pool.

The House Committee of Colleges and Universities informed the Executive Director it was their intent to vote the bill out of committee after the upcoming two week Easter recess of the legislature.

On April 8, 1987, the Board of Regents of Eastern Michigan University unanimously approved the administration's request to participate in a Self Insurance Risk Sharing Facility.

The Board of Regents' minutes reflect the following:

It is recommended that the administration be authorized to enter into a Participation Agreement on behalf of the Board of Regents to establish and participate in the Michigan Higher Education Group Self Insurance and⁹ Risk Management Facility effective July 1, 1987.

On April 9, 1987, members of the Steering Committee met at the State Bar Building and were informed about the changes made to HB 4407 by the Colleges and Universities Committee. There was some concern expressed by members about the potential interference by outside agencies, but it was their general feeling that examination of the pool by an outsider would be reluctantly accepted by potential members.

Legal consultants addressed the Steering Committee concerning the status of the Attorney General's opinion. To date, there had been no receipt of correspondence from the Attorney General.

The actuarial consultants brought the Steering Committee up-to-date on their work with excess commercial insurance carriers. Their plans were to meet with carriers on April 17, 1987, but prior to these meetings the consultants still required the following information:

- what entity was going to be in place?
- what enabling legislation provided the group the authority to pool?
- updated loss and exposure information.

- who would manage the entity?

They also indicated a need to determine how each institution was to provide assurance of the assessment potential of each institution. It was suggested that each institution be required to fund their assessment by purchasing a letter of credit, a performance bond or establish an escrow fund.

The meeting was concluded with a recognition by the committee that while much had been completed on the steps of implementation, the project was still far behind. Institutional administrators were anxiously awaiting completed documents in order to go to their respective boards of control. The decision date for participation had been established on April 1, 1987. Only one institution had made a decision concerning the project. Saginaw Valley State College had decided not to participate. Two other administrations had authority to join the pool, but had yet to commit to the project. There was no way to determine what length of time would be required to complete the pending legislation on HB 4407. While the legal consultants were optimistic the Attorney General's opinion would be favorable, it could not be guaranteed.

On April 11, 1987, the Board of Control of Ferris State College approved the participation in the joint risk sharing venture with the following resolution:

Whereas, Ferris State College has undertaken extensive and deliberate study examining the concept,

feasibility, and advisability of entering into and taking part in a certain self-funded Risk-Sharing Facility with other public institutions in the State of Michigan; and

Whereas, realization of this Risk-Sharing Facility may provide significant benefits to Ferris State College including, but not limited to, greater availability of insurance coverage, enhanced stability of total cost, extended liability coverage, and participation in the management of such facility; and

Whereas, the decision to enter into such relationship is a matter necessitating Board of Control authorization.

Now, therefore, be it resolved that the Board of Control of Ferris State College hereby authorizes the President and/or the Vice President for Business Affairs to enter into an agreement committing Ferris State College to participate in the proposed Risk-Sharing Facility if they deem such relationship, all factors considered, to be in the best interest of the administration of Ferris State College.¹⁰

On a vote of five "yes" and one "no," the motion carried by a majority vote. The board member not supportive of the pooling concept stated her reasons as follows:

1. it was the Board member's personal preference to have a finalized document in place which contained legislative approval.
2. the Board member preferred a delineation of total costs and coverages available before lending favorable support.¹¹

This investigator attended Ferris State College's board meeting and received clear indication that several board members were very much in favor of having the

Insurance Commissioner oversee the joint pooling effort.

Both the Steering Committee and the full Implementation Task Force met on April 14, 1987. The Steering Committee met prior to the Implementation Task Force meeting and the major topic of discussion was the pending legislation. The chair of the Implementation Task Force expressed his displeasure concerning coordination and informational flow. He could not understand why the legislative liaison officers from the institutions were not approaching the legislators and requesting the legislation (HB 4407) move ahead in a timely manner. He questioned the total commitment of the institutions to the project and suggested the possibility of discontinuing the group's effort. Committee members agreed that problems had arisen, some created by their doing and others as a result of outside forces, but each member stated their commitment to seeing the project through.

The full Implementation Task Force met immediately after the Steering Committee and was brought up-to-date on the work of the subcommittees.

The Underwriting Subcommittee chair discussed the trustees and officers coverage and the problems that might be encountered in the purchase of excess insurance over a manuscript form versus a standard commercial insurance form. A manuscript form is an insurance policy written specifically for the insured and contains

indemnification for certain risks not normally covered by the standard insurance industry contract. Excess insurance carriers are usually interested in providing insurance coverages above recognized insurance industry contracts. The task force agreed that the standard form coverage was unacceptable because of the poor quality of coverage and agreed that the directors and officers coverage should have limits supplied by only the pool.

The subcommittee considered seeking directors and officers "commercial" insurance for the facility board of the pool. However, the participation agreement would eventually state the facility board members would be indemnified by the pool.

The Finance Subcommittee presented their recommendations concerning the limits of coverage which would be provided by the pool, and informed the Implementation Task Force of the need for a letter pledging source of funding for possible future assessments of each institution. The Executive Director of the Presidents Council suggested he draft a letter on behalf of all institutions, indicating that each institution would take the appropriate course of action concerning assessment at the appropriate time. The Implementation Task Force concurred with the Executive Director's concept and gave permission to provide the actuarial consultants with such a document.

The Claims Control and Loss Prevention Subcommittee

chair discussed the status of claims handling procedures. He indicated the subcommittee had developed only claims control and loss prevention policies. He stated procedures would follow shortly. The chair of the task force questioned how claims handling procedures of the facility would be coordinated with the University of Michigan's current method of claims handling procedures. The subcommittee chair felt that some middle ground should be found. The University of Michigan representative commented that the concerns of the University of Michigan were greater than with the claims handling procedure problem but did not elaborate.

The Legal Subcommittee chair discussed the current difficulties with the introduced legislation and the pending Attorney General's ruling. The legal consultants in attendance restated their opinion that the Attorney General's rulings should be available shortly and they were hopeful of a decision in favor of pooling.

The Governance Subcommittee discussed the sections in the participation agreement (Appendix B) dealing with assessment and disillusion of pool operations. The task force reviewed and accepted the established assessment requirements and what would constitute action for dissolution.

The chair of the task force then asked for the current

position of each institution's board concerning participation:

Michigan Technological University - The administration went to the board in March with information. The board was impressed with the work done and liked the makeup of the potential membership. The administration intended to ask for authority on May 22, 1987.

Wayne State University - The representative indicated that they were still in the pool. The administration would go to the board on May 1, 1987 requesting authority to join.

Western Michigan University - The representative indicated that they were still in the pool. The next board meeting was April 25, 1987. There were still many unresolved issues and they would not ask permission until June 9, 1987.

Northern Michigan University - The board had been updated four or five times. The next board meeting was May 1, 1987, but the administration had already received authority to join.

Michigan State University - The board had already given permission to the administration to join. However, if there was not excess insurance over the pooled risk, Michigan State University would not join.

Central Michigan University - The administration was still interested in joining, but did not have authorization from the board. The board would be approached on May 5, 1987 requesting authority.

Eastern Michigan University - The board voted, allowing the administration to join on April 8, 1987.

Ferris State College - The board gave the administration authority to join on April 11, 1987.

Grand Valley State College - The board would be asked for approval to join on May 8, 1987.

Lake Superior State College - The board would be asked for approval to join on May 15, 1987.

Oakland University - The representative indicated that the administration would go to the board for a request to join in May or June. The institution's legal officer had to be completely satisfied with the participation agreement prior to taking the request to the board.

Saginaw Valley State College - No representative was in attendance and the Executive Director of the Presidents Council restated the decision of Saginaw Valley State College not to participate because of costs and limits of coverage being considered by the facility.

University of Michigan - The administration was evaluating the pool on its own merit. The institution was reluctantly in at this point. He commented that other alternatives may be better for the captive that the institution had formed.

As a participant in the process, this investigator was becoming increasingly concerned that the group's effort would not result in the formation of a joint pool. The Presidents Council's April 1, 1987 request for deciding each institution's intention to participate had long passed. One institution did not plan to make a decision until June 9, 1987. With many institutions having to renew their insurance programs by July 1, 1987, and institutional decisions concerning commitment to participation coming so late, the question had to be asked, "was the group running out of time?"

The Vice President and Chief Financial Officer of the University of Michigan, in correspondence dated April 20, 1987, addressed to the chair of the Implementation Task Force, notified the chair of the University of Michigan's intent not to commit to membership in the group pooling effort. The reasons given for non-participation were as follows:

- the institution felt that university funds would be better used by supporting the captive insurance formed by the university

- the institution preferred to enter enterprises where the participants are more similar in character¹²

The Vice President indicated that their decision was not necessarily irrevocable, but understood should the University of Michigan revoke their decision, it then would be a decision of the pool to allow entering. The correspondence concluded committing continued staff efforts in the project and the expression of interest in the formation and success of such a cooperative effort.

The Presidents Council met on April 20, 1987, and their agenda included a request for information on the Implementation Task Force's progress. The minutes of the Council reflected the following:

The chairperson of the Implementation Task Force and legal consultants gave a brief update on the status of the insurance program. In response to questions, the legal consultants replied that they were fairly certain on receiving a favorable ruling from the Attorney General within 24 to 72 hours.

In the discussion that followed, it was noted that the University of Michigan would not be participating in the program due to the establishment of their own insurance program in Vermont. The chairperson of the Implementation Task Force reported that the actuarial costs are now being refigured with the exclusion of the University of Michigan. The council member of Saginaw Valley State College confirmed his support of the concept, but reaffirmed that Saginaw Valley State College would not be participating because the costs were too great at the time.

Responding to an inquiry on commitments thus far, the Executive Director of the Presidents Council noted the confirmation of participation from Eastern Michigan University, Ferris State College, Michigan State University and Northern Michigan University. He noted the Wayne State's governing board would discuss possible participation in the program by the end of the week. The chair of the Implementation Task Force reported that it was his understanding that Central Michigan University also planned to become participants soon, but that further internal review was necessary. Concern was expressed by the timing and that legislation would not get through the process in time to be "up and running" by the designated target date. The Council representative from Eastern Michigan University suggested that contact be made with the chair of the Colleges and Universities Committee seeking his guidance and the Council's Executive Director indicated that this would be done.

The council member of Eastern Michigan University asked the council members to join with him and express the council's appreciation to the Insurance Committee for their work on this historic effort.¹³

The Claims Control and Loss Prevention Committee met on the campus of Michigan State University on April 21, 1987. The major task of the group was to establish claims handling procedures for the pool. A document was drafted describing uniform claims reporting procedures. The subcommittee recognized the need to purchase outside specialized claims handling services for the pool. The claims handling procedures would be common to all those institutions who choose to participate in the pool.

The Implementation Task Force met in the afternoon of April 28, 1987 and was presented with a ten-item agenda.

The task force was brought up-to-date on items that had been presented to the Presidents Council earlier the same day. The Executive Director of the Presidents Council made a few brief comments about the departure of the University of Michigan from the process, emphasizing the need for everyone to understand each institution's administration must objectively review the course of action which is determined to be in their best interest.

Discussion and presentation of the latest draft of the participation agreement then took place. The task force would continuously work on refining the agreement during the implementation phase of the project. This draft would recommend the pool be organized as a non-profit corporation. This recommendation was received favorably by the entire group.

The actuarial consultants had been in contact with excess insurance companies and were of the opinion that there would be favorable responses for providing excess insurance over the pool from the commercial insurance market. There was no estimated cost for excess insurance given at the time. The actuarial consultants indicated that an estimate for cost would be provided by the middle of June.

Other discussion items included the pool's claims adjustment procedures which had been developed by the Claims Control and Loss Prevention Subcommittee. The procedures

were distributed and the chair of the task force deferred adjustments to the procedures to the MCURMO group which was to meet on May 13, 1987.

One final agenda item in which there was difficulty in arriving at a consensus was who would manage the pool. Opinion was expressed by several task force members that hiring employees to operate the pool at this late date in the process was not possible. The actuarial consultants had indicated in correspondence addressed to the Executive Director of the Presidents Council and the chair of the Implementation Task Force, of their desire to manage the pool. There was no decision made and the group deferred the question of management until the next full Implementation Task Force meeting scheduled for May 14, 1987.

On May 1, 1987, the Board of Governors of Wayne State University approved the following action relating to the institutions participation in the Michigan Higher Education Risk-Sharing Facility:

Action - Upon motion by one Governor and seconded by another Governor, the Board of Governors authorized the President or his designee to enter into an agreement (participation agreement) with the other public institutions of higher education, created in or existing pursuant to Article VIII, Section 5 or 6 of the State Constitution of 1963, to form the "Michigan Higher Education Risk-Sharing Facility" (Facility) if, in their judgment, the final terms, financial projections, projected risks and benefits do not negatively deviate substantially from the preliminary data that is currently available. If the data changes dramatically to the point where the administration

believes that it is highly questionable as to whether Wayne State University should join the Facility, the issue will be presented to the Board at the next meeting for a final decision. The motion was adopted unanimously.¹⁴

On May 8, 1987, the Board of Control of Grand Valley State College unanimously approved the following resolution:

Resolved, that the Board of Control of Grand Valley State College grant to the Vice President for Administration and/or the Business and Finance Officer the discretion to approve the participation of Grand Valley State College in the Risk-Sharing Facility currently being developed by the Council of Presidents of Michigan State Colleges and Universities to provide excess comprehensive general liability and directors and officers liability coverages, provided that the apparent advantages will accrue to the College.¹⁵

The MCURMO organization met on the campus of Michigan State University on May 13, 1987. The group discussed the current outstanding issues and believed it necessary to recommend the Implementation Task Force tasks and a timetable to accomplish them prior to the July 1, 1987 operational date. The MCURMO group developed and forwarded a list of tasks to the full Implementation Task Force on May 14, 1987.

The unresolved issues identified by the MCURMO members included:

1. Determine the type of entity.
2. Determine a date for commitment for excess commercial insurance.

3. Makeup of the board of the pool.
4. Determine the management structure.
5. Develop a request for proposal of management services.
6. Finalize insurance policy forms.
7. Finalize bylaws.
8. Finalize participation agreement.
9. Place excess insurance.
10. Release of request for proposals for claims service.
11. Release of request for proposals for loss prevention services.
12. Determine who will invest the pool's funds.
13. Determine allocation of capital, premiums and administration costs for institutions that come into the pool after July 1, 1987.¹⁶

The MCURMO group reviewed the issue of facility management. The group was divided on a course that should be taken. The membership, after much discussion, recommended the pool be administered by external management services and a Request for Proposal be developed and selection of a management firm

be completed by July 1, 1987. It was further recommended that in the event the management selection did not occur prior to July 1, 1987, a subcommittee should be immediately formed to respond to concerns and help facilitate the transfer of administration operations from the task force to a selected management firm.

The second alternative was the recommendation that actuarial consultants be asked to manage the pool on an interim basis for a period not to exceed three months.

These recommendations were forwarded to the full Implementation Task Force for review and consideration at the May 14, 1987 meeting.

This question of management services was the only issue that the MCURMO group was strongly divided. Several of the members felt that there was an inherent conflict of interest when the management firm would also be marketing the excess insurance for the pool and receiving revenues from the marketing of excess from the commercial insurance industry. Other members were more concerned about an influx of yet another new organization. Trying to inform a new organization on what had already transpired could prove too difficult in the short period left to the anticipated operational phase.

The following day (May 14, 1987) the full Implementation Task Force was addressed by actuarial consultants.

They indicated that marketing of the excess insurance was being well received by excess insurance companies. They noted that the Steering Committee should meet with these companies in early June and provide any additional information which might be required by the excess insurance carriers.

At this point in the implementation stage, a crucial issue still remained unresolved. The legislation (HB 4407) still remained in the Colleges and Universities Committee and the Attorney General's opinion still had not been received. Progress on the project could not proceed until there could be identification of the entity. This could not be established prior to enacted legislation or receipt of a favorable Attorney General's opinion. The legal consultants indicated the Attorney General's opinion was imminent and legislation should be ordered out of committee and to the full House of Representatives very shortly.

On a separate topic, the legal consultants stated they were working on the bylaws of the proposed corporation and they would be prepared for the next meeting of the Implementation Task Force.

The concerns of the MCURMO organization were reviewed by the Implementation Task Force. There was agreement that the list of unresolved issues were valid and they would be addressed in due course.

Much of the discussion involved the management services that would be required. The members of the task force agreed outside management services would need to be purchased. Several members insisted on the development of a request for proposal for these services and volunteered to have it prepared by the next meeting. It was agreed that a request for proposal should be developed and actuarial consultants would also be approached to see if they would be willing to manage the facility in the interim.

Finally, on May 20, 1987, the Executive Director of the Presidents Council received correspondence from the Chief Assistant Attorney General. The following correspondence clarifies the position of the Attorney General regarding Higher Education self-insurance pools:

Executive Director
Presidents Council of State
Colleges and Universities
306 Townsend
Lansing, Michigan 48933

Re: Higher Education Self-Insurance Pools

Dear Executive Director:

The Attorney General has asked that I advise you of our conclusions regarding two questions arising out of a proposal to establish a group self-insurance and risk-management pool by certain state institutions of higher education.

As we understand the proposal, Michigan public colleges and universities are considering the creation of a pool which would insure each of them for claims above a certain deductible level. Excess coverage insurance would be carried by the pool to protect against liability above a certain maximum level.

Thus, there would effectively be three levels of insurance coverage: (1) pure self-insurance for relatively small claims, which each institution would provide for itself; (2) the pooling level, for larger claims where risks will be shared amongst the institutions; and (3) excess coverage, purchased by the pool, which would cover very large claims in amounts above that covered by the pooling agreement. Only constitutionally recognized public colleges and universities would participate in the proposed pool.

Your questions concerning this proposal may be stated as follows:

(1) Do institutions of higher education existing pursuant to Const 1963, art 8, SS 4, 5 and 6 have inherent constitutional power to pool their risk?

(2) Would the formation and operation of such a group self-insurance pool be subject to the Michigan Insurance Code?

Const 1963, art 8, SS 5 and 6, provide in part that the governing boards of public institutions of higher education "shall have general supervision of the institution and the control and direction of all expenditures from the institution's funds." It is settled law that this language grants these governing board constitutional autonomy to manage their respective institutions and to control the expenditure of their institution's funds without legislative interference. State Board of Agriculture v Auditor General, 226 Mich 417, 424 (1924); Board of Control of Eastern Michigan University v Labor Mediation Board, 384 Mich 561, 563-565 (1971); Regents of the University of Michigan v State of Michigan, 395 Mich 52, 63-65 (1975). This principle was discussed at length by the Court of Appeals in William C. Reichembach Co v State, 94 Mich App 323, 335-336; 288 NW2d 622 (1979):

"These constitutional provisions have been interpreted by Michigan appellate courts to give to the trustees entire control and management over University affairs; including the management of property and expenditure of funds to the exclusion of all other departments of the state. Board of Regents of the University v Auditor General, 167 Mich 444; 132 NW 1037 (1911), Sterling v Regents of

University of Michigan, 110 Mich 369; 68 NW 253 (1896). Although the Legislature may put certain conditions on money that it appropriates for the University, and such conditions are binding if the trustees accept the money, the conditions may not interfere with the trustees' management of the University and may be applied only to state appropriated funds. State Board of Agriculture v Auditor General, 226 Mich 417; 197 NW 160 (1924), State Board of Agriculture v Auditor General, 180 Mich S49; 147 NW 529 (1914). We will interfere with university control only if the proposed expenditure violates our constitution or public policy. Sprik v Regents of the University of Michigan, 43 Mich App 178; 204 NW2d 62 (1972), *aff'd* on other grounds 390 Mich 84; 210 NW2d 332 (1973).

We are aware of no conditions placed by the Legislature on funds it has appropriated to Michigan public colleges and universities which would prohibit the use of such funds for a self-insurance pool of the type proposed here. Nor does it appear that the formation of such a pool would be contrary to the Constitution or public policy of the state. Indeed, the Legislature has itself authorized the formation of similar pools pursuant to statute on a number of occasions. See, e.g., 1913 PA 388; S 2 (establishing the state insurance fund to serve as a self-insurance pool for state property, subsequently but repealed by 1965 PA 365, S 2; MCL 550.711; MSA 43.582); 1982 PA 138, MCL 124.1 et seq; MSA 5.4081, (authorizing municipalities to form group self-insurance pools by intergovernmental contract); and 1986 PA 173; MCL 500.6500 et seq; MSA 24.16500 et seq, (authorizing "limited liability pools" by and for businesses where ordinary liability insurance is not readily available.)

It may be concluded, therefore that the establishment of a group self-insurance pool is within the constitutional authority of Michigan's public four-year colleges and universities and is not contrary to public policy.

Turning to your second question, it is well established that regulatory statutes, such as the Insurance Code, do not normally apply to the state or its agencies

nor to constitutional bodies such as public colleges and universities, unless there is a clearly stated intention to render the statute applicable. See, e.g., Marquette County v Board of Control of Northern Michigan University, 111 Mich App 521, 542; 314 NW2d 678 (1981) where the court stated:

"It is ... clear that even if a law is enacted under the state's police power, it does not apply to the state unless it is very clear that the legislature intended it to apply to the state and its agencies."

While the legislature has enacted certain insurance provisions in which public colleges and universities may voluntarily elect to participate, see, e.g. MCL 550.710; MSA 24.581, and MCL 500.6500 et seq; MSA 24.16500 et seq, the Legislature has not expressed in the Insurance Code a clear legislative intent to make the Code generally applicable to public colleges and universities which have constitutional status. Thus, if the Legislature, in a proper exercise of the state's police power, concludes that it is appropriate to make certain portions of the Insurance Code applicable to the constitutional bodies involved in this question, it would be necessary to amend the Insurance Code so as to clearly evidence the Legislature's intent to exercise its policy powers for the protection of the institutions and the public. Branum v Board of Regents of University of Michigan, 5 Mich App 134 (1966).

It follows, therefore, that a group self-insurance pool formed by such public colleges and universities would not be subject to the provisions of the Insurance Code.

Very truly yours,

Chief Assistant Attorney General¹⁷

With receipt of this written opinion, a critical step in the implementation phase had been hurdled. The Implementation Task Force was now assured of the authority to complete the final part of the implementation process.

On May 22, 1987, the Board of Control of Michigan Technological University was updated on the current status of the Michigan Higher Education Risk Sharing Facility project. As a result, the Board unanimously authorized the following recommendation:

Recommendation: That the board authorize Michigan Technological University to participate in the Michigan Higher Education Risk-Sharing Facility by approval of the Participation Agreement attached hereto. (See Appendix B.)¹⁸

On May 23, 1987, the Michigan Higher Education Group Self-Insurance and Risk Management Facility was incorporated in the State of Michigan as a non-profit corporation as described in Appendix C.

The agenda for the May 26, 1987 meeting of the Implementation Task Force was extensive and many important items would be finalized. The chair of the Implementation Task Force updated the group on the status of institutional decisions for participation. Central Michigan University, Lake Superior State College, Oakland University and Western Michigan University had still not received approval to participate.

The Executive Director of the Presidents Council informed the group on the status of legislation and the Attorney General's ruling. With a favorable ruling from the Attorney General, there was recognition that the legislation (HB 4407) was not needed. The problem now was the

legislation had been approved by the Colleges and Universities Committee and sent to the full House of Representatives for action. The Executive Director suggested that HB 4407 subjected the pool some interference by other governmental agencies. He also stated that he felt the House of Representatives would support the bill as presented, but was concerned about the possible changes that may occur in the Senate. He concluded his presentation by reassuring the task force of his intent to keep everyone aware of the legislative process.

With the receipt of the favorable opinion from the Attorney General, the legal entity was established as the Michigan Higher Education Group Self-Insurance and Risk Management Facility, a non-profit corporation formed in the State of Michigan.

The distribution of the bylaws drawn up by the legal consultants (see Appendix D) resulted in very little discussion. There was some concern about the election of officers holding the title of President and Vice President and how this might be perceived by institutional presidents. The bylaws would be subject to more adjustments which were minor in nature.

The next issue involved the formation of the facility governing board. The Executive Director of the Presidents Council discussed the need for each institution to designate

a board representative and alternate in time for the next meeting of the Implementation Task Force. The board representatives were to represent the interests of their institutions relating to business of the facility.

The task force was brought up-to-date on the solicitation of claims adjustment and loss prevention service bids. The subcommittee charged with this responsibility informed the group that bids were to be received by June 15, 1987, and final selection of firms providing these services would be completed by June 20, 1987. The subcommittee chair presented the task force with the claims adjustment procedures which would be used by the corporation.

The final discussion item involved the decision determining management services for the corporation. A draft of a request for proposal for management services was developed by a subcommittee of the MCURMO organization and presented to the full task force. The group was still divided on the direction that should be taken. It was concluded that it was too late to bring in a firm that is unfamiliar with what had transpired to date. The Executive Director and Chair of the Implementation Task Force were directed to discuss with actuarial consultants, the possibility of a short interim agreement arrangement. With the decisions made on May 26, 1987, the Implementation Task Force could now prepare for the operation of the pool on July 1, 1987.

On June 5, 1987, the board of trustees of Central Michigan University approved the participation in a group risk sharing Facility with the following resolution:

It was moved by a board member, seconded by another board member, and carried, that the following resolution be adopted.

WHEREAS, The University has been working cooperatively with the other State College and Universities in the State of Michigan to establish a group Risk-Sharing Facility; and

WHEREAS, The current plan would be to have the Facility operational by July 1, 1987; and

WHEREAS, The University will be required to make a decision with respect to participation in the Facility between now and June 30; Now therefore be it

RESOLVED, That the President is authorized, if deemed in the best interest of the University, to enter into a participation agreement on behalf of the University with the Michigan Higher Education Risk-Sharing Facility. In addition, the President is authorized to appoint the University representative to serve on the Board of Directors of the Facility.¹⁹

The Implementation Task Force met on June 5, 1987, and continued to work on several unresolved issues. The Executive Director updated the task force on HB 4407. Legislation was now in the hands of the Senate Commerce and Technology Committee and it appeared there was some outside lobbying against passage of the legislation.

The senate substitute bill for HB 4407 gave the Insurance Commission control over the facility as stated in the following Section of the Senate Substitute Bill:

The commissioner of insurance may perform examinations of the pool to assure that the pool is in a sound financial condition and operating in accordance with this act. The examinations shall be conducted in the same manner as those conducted for casualty insurers under the insurance code of 1956, Act No. 218 of the Public Acts of 1956, being sections 500.100 to 500.8302 of the Michigan Compiled Laws. After conducting the examination, the commissioner of insurance may make recommendations to the pool with regard to the financial condition of the pool. Within 120 days after receiving the recommendations, the pool shall notify the commissioner of insurance of the pool's response to the recommendations and detailing any corrective action to be taken by the pool with respect to the financial condition of the pool. If the commissioner of insurance determines the pool's response to his or her recommendations and proposed corrective action is inadequate, he or she shall take the same action and shall have the same authority as the commissioner has with respect to a casualty insurer under the insurance code of 1956 including, but not limited to, the appointment of a receiver pursuant to chapter 78 of the insurance code of 1956, Act N. 218 of the Public Acts of 1956, being sections 500.7800 to 500.7868 of the Michigan Compiled Laws.²⁰

The potential of another agency controlling the pool was still a major concern of the Implementation Task Force. The Attorney General's opinion did not rule out the possibility of amendments to the insurance code which could make constitutional bodies (Public Institutions of Higher Education) subject to this regulatory body. The Executive Director of the Presidents Council assured the group of his intent to keep them apprised of further legislative action.

The actuarial consultants reported on the progress being made with the excess commercial market. Several companies had expressed interest in providing the excess

insurance, but the consultants thought it necessary that the Steering Committee meet with these firms and explain the project. It was their opinion that personal interaction with these firms would enhance the group's ability to attain excess coverage.

The continuing problem with the decision concerning management of the facility was revisited. The task force recommended a subcommittee of the task force, comprised of the representatives from Michigan State University, Ferris State College and Wayne State University, meet prior to the June 11, 1987 Implementation Task Force meeting and make a recommendation for length, terms and conditions of the contractual arrangement between the management firm and the pool.

The Implementation Task Force established the date of June 25, 1987 for formal closing and signing of the documents. The first official board meeting of the Michigan Higher Education Risk Management and Risk Sharing Facility was also scheduled to take place on this date.

The Implementation Task Force designated a subcommittee of the group to review the proposals received for claims adjustment and loss prevention services prior to June 24, 1987.

The Board of Western Michigan University approved joining the pool on June 9 with the following recommendation:

It is recommended that the treasurer or assistant treasurer, at their discretion, be authorized to enter into a participation agreement on behalf of the Board of Trustees to establish and participate in the Michigan Higher Education Group Self-Insurance and Risk Management Facility effective July 1, 1987.²¹

On June 10, 1987, the Board of Trustees of Oakland University approved the following recommendation relating to participation in the Michigan Higher Education Risk Sharing Facility:

RESOLVED, That, contingent upon a determination by the University administration that entering into an agreement with the participating State of Michigan Colleges and Universities for the formation of the Michigan Higher Education Risk-Sharing Facility is in the University's best interests, after taking into consideration the cost and comprehensiveness of the insurance offered by the Facility in comparison to alternative sources, and the potential stability of coverage, and after determining that equivalent coverage is not available elsewhere for the same or lesser cost; the Vice President for Finance and Administration in consultation with the University's General Counsel is authorized to enter into an agreement with the participating State of Michigan Colleges and Universities, for the formation of the Michigan Higher Education Risk-Sharing Facility; and be it further

RESOLVED, That the University shall obtain secondary Directors and Officers insurance through the Facility effective July 1, 1987, or at such date as the Facility first offers such insurance; and be it further

RESOLVED, That upon the expiration of Oakland University's existing general liability policy on November 30, 1987, the University shall obtain replacement coverage through the Facility; and be it further

RESOLVED, That the President shall be authorized to appoint an institutional representative to the Board of the Facility; and be it further

RESOLVED, That periodic reports shall be made to the Oakland University Board of Trustees Finance and Personnel Committee during the period when costs and coverages are being established by the Facility; and be it further

RESOLVED, That an annual financial report of the Facility's activities shall be presented to the Board of Trustees.²²

On June 11, 1987, the subcommittee of the task force comprised of a representative from Michigan State University, Ferris State College and Wayne State University met prior to the full task force meeting to recommend a course of action concerning management services. The subcommittee arrived at the decision to hire the actuarial consultants for a period of twelve months with the option to terminate the contractual arrangement for any reason at any time. The pool would have the right to renew contractual arrangements at three month intervals with service fees being prorated.

With the management of the facility identified, two remaining issues needed to be resolved: the obtaining of excess insurance for the pool and the final commitment of Lake Superior State College.

Members of the Steering Committee, legal and actuarial consultants traveled to Chicago on June 12, 1987, and Detroit on June 16, 1987, and met with companies interested in providing excess insurance. During these meetings, it became clear the group's two-year efforts had prepared them to address issues.

The ability to respond to the concerns expressed by representatives of the various insurance companies was a reflection of the necessary preparation of the task force members and consultants.

Questions directed toward the group included:

- what type of claims handling and loss prevention procedures would be in place?
- were the institutions committed to the program for the long term?
- who was to manage the facility?
- do the institutions have the authority to pool?
- who was to handle the claims for the facility?
- did the institutions have a commitment to loss prevention?

Each Steering Committee member responded to questions that had been dealt with in their subcommittee. It did appear that excess reinsurers were impressed with the group's efforts, but made no commitment to the Steering Committee members. It was obvious from the meetings that the legal consultants and the actuarial consultants had stressed the important issues that needed to be addressed for the pool to receive favorable responses from excess insurance companies.

On June 17, 1987, the full task force met in East Lansing on the campus of Michigan State University. The chair of the task force updated the group on the identification of the pool's board members. Each institution had

identified their representative and alternative with the exception of Oakland University. Their representative would be identified prior to June 24, 1987. Lake Superior State College had identified their board member, but for the past several task force meetings their institution had not sent a representative to the meetings. The Executive Director stated he would contact Lake Superior State College and ask their position concerning participation.

The Executive Director updated the Implementation Task Force on the status of HB 4407. Because no agreement could be arrived at between the House of Representatives version of the bill and the Senate Commerce and Technology Committee version of the bill, the legislation was referred to a conference committee, and the Executive Director felt no further action would take place on the bill prior to the summer recess of the legislature.

Both the participation agreement and bylaws of the corporation were reviewed one more time with no changes resulting from the review.

The actuarial consultants discussed the current status of the marketing efforts for the excess insurance. The Implementation Task Force was informed that initial indication of cost was much more than originally anticipated but negotiations were still ongoing.

Discussions concluded with the task force agreeing to

meet on June 24, 1987 to resolve any unfinished business prior to the first official board meeting of the Michigan Higher Education Group Self-Insurance and Risk Management Facility.

The June 24, 1987 meeting was held in Lansing, Michigan at the State Bar Building. The Executive Director of the Presidents Council informed the task force of Lake Superior State College's decision not to join the risk-sharing facility. The reason for not joining was given as cost. The college administration was able to purchase commercial insurance at a lower cost than offered by the pool.

The actuarial consultants informed the task force that excess insurance had been purchased within the amount budgeted. They did also mention that the excess insurance company required claims adjustment services must be purchased from a subsidiary corporation of the excess insurance carrier. The justification for such a requirement was that the excess carrier wanted to be kept aware of how claims were being administered and to protect their interests as they were providing excess insurance coverage to a newly formed corporation.

The actuarial consultants agreed to the request of the facility to accept a twelve month management contract under the terms of conditions previously mentioned.

The chair of the Subcommittee of Claims Adjustment and

Loss Prevention informed the task force that he was in receipt of proposals from firms interested in providing claims adjustment and loss prevention services. Because of the requirement of the excess insurance carrier, the claims adjustment proposals did not require an evaluation. The loss prevention proposals were evaluated and a firm was selected based upon cost and experience working with institutions of higher education. The meeting was concluded with this investigator anticipating the next day's meeting which would climax the two year effort.

The concluding meeting of the Implementation Task Force took place at one o'clock on June 25, 1987. Representatives from ten colleges and universities met at the Kellogg Center on the campus of Michigan State University for the singular purpose of signing a participation agreement obligating their institution to a joint risk sharing corporation for a five year period. Each institution would receive an original copy of the signed participation agreement (see Appendix B).

The institutions who chose to join the Michigan Higher Education Group Self-Insurance and Risk Management Facility and the administrative titles of those individuals who signed the document were as follows:

Central Michigan University - President

Eastern Michigan University - Director of
Risk Management

Ferris State College - Director of Administrative Services

Grand Valley State College - Director of Business Services

Michigan State University - Controller

Michigan Technological University - Vice President for Operations and Finance

Northern Michigan University - Vice President for Finance and Administration

Oakland University - Assistant Vice President of Administration and Risk Management

Wayne State University - Director of Risk Management

Western Michigan University - Director of Operational Services

Upon signature of the participation agreement, the first meeting of the Board of Directors of the Michigan Higher Education Group Self-Insurance and Risk Management Facility took place. The following actions were recorded and certified as the minutes of the initial meeting of the corporation.

The First Meeting of the Board of Directors of the Michigan Higher Education Group Self-Insurance and Risk-Management Facility (the "Corporation") was held on Thursday, June 25, 1987 at 1:30 p.m. in East Lansing, Michigan. Present at the Meeting were the following Directors:

Eastern Michigan University
Grand Valley State College
Ferris State College
Oakland University
Western Michigan University
Wayne State University
Michigan State University
Northern Michigan University
Central Michigan University

Also present was the following Alternate Director:

Michigan Technological University

The Directors present executed a Waiver of Notice of the Meeting.

The Incorporator assumed the Chair of the Meeting. The following resolutions were discussed in turn and, upon a motion duly made and seconded, it was unanimously

1. RESOLVED, that the Waiver of Notice be placed in the Records of the Corporation.

2. RESOLVED, that each of the following persons is hereby elected to the office that appears opposite his or her name to serve in such capacity until the next Annual Meeting of the Board of Directors and until his or her respective successor shall be duly elected and qualify:

Michigan State University	- President
Eastern Michigan University	- Vice-President
Central Michigan University	- Secretary
Ferris State College	- Treasurer

The President then assumed the gavel and chaired the remainder of the meeting. The Following resolutions were each discussed in turn and, upon a motion duly made and seconded, it was unanimously

3. RESOLVED, that the Participation Agreement and Certificates of Authorization be received and placed in the Records of the Corporation.

4. RESOLVED, that the Articles of Incorporation as filed with the State Corporation and Securities Bureau and the Bylaws are hereby adopted and; it was

FURTHER RESOLVED, that a Certified copy of the Articles of Incorporation and a copy of the Bylaws be placed in the records of the Corporation.

5. RESOLVED, that the acts of the Incorporator, the Presidents Council of State Colleges and Universities and its Task Force on Insurance, as they relate to the formation and incorporation of the Corporation, are hereby confirmed, adopted and ratified.

6. RESOLVED, that the President, on behalf of the corporation, is hereby authorized to issue Indemnification and Risk-Management contracts to Members of the corporation on terms acceptable to the Board of Directors.

7. RESOLVED, that the Initial Payment and First Periodic Payment for each Member for the period ending June 30, 1988 shall be those set forth on Schedule A of the Participation Agreement subject to revision based solely upon actual cost; and it was

FURTHER RESOLVED, that the Initial Payment shall be due from Members July 1, 1987; and it was

FURTHER RESOLVED, that the First Periodic Payment shall be due from Members on or before July 10, 1987.

The next item on the agenda, Authorization of the Purchase of Excess Insurance, was reviewed by the board and discussed. It was noted that actuarial consultants, the Corporation's insurance consultant, had firm commitments from companies to offer the Corporation \$21 million of the \$25 million excess insurance sought by the Corporation. The actuarial consultants informed the Board that the cost of the last layer of the excess insurance sought by the Corporation had been committed and that the final cost of \$25 million of excess insurance would cost the Facility \$1,520,250. The President called for a vote and, upon a motion duly made and seconded, it was unanimously

8. RESOLVED, that the President, on behalf of the Board of Directors, is hereby authorized to enter into contracts for the purchase of excess insurance based on the commitments secured by the actuarial consultants subject to final approval of the Board of Directors.

The following Resolutions were discussed in turn and, upon a motion duly made and seconded, it was unanimously

9. RESOLVED, that the Fiscal Year of the Corporation shall end June 30 of each year.

10. RESOLVED, that the Fiscal Year of the Corporation is hereby authorized to pay the expenses incurred in connection with the

incorporation and organization of the Corporation.

11. RESOLVED, that the officers of the Corporation are hereby authorized and directed to execute and file on behalf of the Corporation an Application for Recognition of Exemption with the Internal Revenue Service applying for exemption from Federal income taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended; and it was

FURTHER RESOLVED, that the officers of the Corporation are hereby authorized and empowered in the name of and on behalf of the Corporation, to do any and all other acts and things, and execute any and all other instruments and documents, which may be or become necessary, desirable or proper to carry out, put into effect and make operative any portion or portions of this Resolution including, but not limited to, filing a Charitable Trust - Registration Statement and an Application and Financial Statement with the Michigan Department of Attorney General in Lansing, Michigan.

12. RESOLVED, that the Board retain an actuarial consultant for Management Services for the Corporation; and it was

FURTHER RESOLVED, that the President is hereby authorized to negotiate the terms and conditions of the Management Contract subject to the final approval of the Board of Directors; and it was

FURTHER RESOLVED, that the President is directed to report proposed contract language at the next Board of Directors Meeting.

The next item on the Agenda, Authorization of Claims Handling Contract, was reviewed by the Board and discussed. It was noted that the Corporation would be required to use the services of a company as a claims management service due to the fact that the Corporation proposed to purchase part of its excess insurance from the company. The President called for a vote and, upon a motion duly made and seconded, it was unanimously

13. RESOLVED, that the Board retain a company to provide claims management services to the Corporation; and it was

FURTHER RESOLVED, that the President is hereby authorized to negotiate the terms and conditions of the Claims Management contract subject to the final approval of the Board of Directors.

The next item on the Agenda, Consideration of Loss Prevention Proposals was reviewed by the Board and discussed. It was noted that several firms had offered proposals for Loss Prevention Programs for the consideration of the Corporation. The Board Member from Ferris State College advised the board that he had reviewed the many proposals and, based on his analysis and comparison of the proposals, he recommended that the Board consider the proposal of a protection consultant. The President called for a vote and, upon a motion duly made and seconded, it was unanimously

14. RESOLVED, that the Corporation retain a protection consultant for a period not to exceed three years, which contract shall be reviewable each year; and it was

FURTHER RESOLVED, that the Treasurer is hereby authorized to negotiate the specific terms of the contract subject to the final approval of the Board of Directors; and it was

FURTHER RESOLVED, that the Treasurer is hereby authorized to notify the unsuccessful bidders on the Loss Prevention proposal to inform them of the choice of the Board.

The following Resolutions were each discussed in turn, and, upon a motion duly made and seconded, it was unanimously

15. RESOLVED, that the funds of the Corporation be deposited in a bank; and it was

16. RESOLVED, that the Registered Office of the Corporation be located at 306 Townsend, Suite 450, Lansing, Michigan 48933; and it was

FURTHER RESOLVED, that the Articles of Incorporation be amended to accurately reflect this Resolution.

17. RESOLVED, that the following be a mailing address of the Corporation:
600 Renaissance Center
Suite 2100
Detroit, MI 48243

The next item on the Agenda, Designation of Places and Times of Regular Meetings of the Board of Directors, was reviewed by the Board and discussed. The President noted that the question of the annual meeting of the Board should be considered in connection with this item, and moved to defer consideration of these items until the next meeting of the Board. Upon a motion duly made and seconded, it was unanimously

18. RESOLVED, that the question of the designation of Place and Time of Regular Meetings and Annual Meetings of the Board of Directors is hereby deferred until the next meeting of the Board of Directors.

The next item on the Agenda, Authorization to Retain General Counsel was reviewed by the Board and discussed. The President called for a vote and, upon a motion duly made and seconded, it was unanimously

19. RESOLVED that a law firm be retained as general counsel to the Corporation.

The President moved that the next item on the Agenda, Designation and Duties of Committees be deferred until the next meeting of the Board of Directors. Upon a motion duly made and seconded, it was unanimously

20. RESOLVED, that consideration of Designation and Duties of Committees of the Board is hereby deferred until the next meeting of the Board of Directors.

The next item on the Agenda, Designation of Signatories for Checks, Drafts and other Negotiable Instruments was reviewed by the Board and discussed. The President called for a vote, and upon a motion duly made and seconded, it was unanimously

21. RESOLVED, that checks, drafts or other negotiable instruments drawn on the funds of the Corporation must be signed by both an Officer of the Corporation and a designated employee of the Corporation's Manager, and it was

FURTHER RESOLVED, that any and all officers of the Corporation elected from among the Board of Directors are hereby authorized to sign any checks, drafts and other negotiable instruments.

The Board then heard a presentation of items from the Corporation's Manager. The Manager noted that the Facility has been described to the excess insurers as a fully-funded facility, and, therefore, it would be necessary for the Members to commit and the Facility to have access to the maximum amount of funds potentially assessable against Members. The Manager continued that the maximum amount for each Member had been calculated for each Member and noted that three ways of providing for these funds is by letters of credit, an escrow account or a surety bond.

The Board discussed these matters, and the President called for a vote. Upon a motion duly made and seconded, it was unanimously

22A. RESOLVED, that each Member be advised to provide in the amount recommended for both Comprehensive General Liability and Errors and Omissions Liability one of the following three options by July 10, 1987:

(1) A letter of credit in favor of the Corporation;

(2) A deposit into an escrow account in the name of the Facility upon terms and conditions approved by the Board; or

(3) A surety bond in favor of the Corporation; and it was

FURTHER RESOLVED, that the President is hereby authorized to execute any and all documents necessary to effectuate this resolution.

The next item on the Agenda, Insurance and/or Indemnification for Directors, Officers and Employees of the Facility through the Facility, was presented by the Manager. It was noted that the Corporation was in the process of providing group self-insurance coverage for its Members and that it would be inconsistent with that effort to purchase insurance for directors, officers, employees and agents of the Corporation. The Manager noted that the cost of providing Comprehensive General Liability coverage to directors, officers, employees and agents of the Corporation would be minimal. The Manager indicated that the same was likely true for Errors and Omissions Liability coverage.

The President called for a vote, and, upon a motion duly made and seconded, it was unanimously

22B. RESOLVED, that the Corporation provide the same coverage to itself and its

directors, officers, employees and agents as it proposes to provide to its members and their directors, officers, employees and agents.

The Manager asked that the next item on the Agenda, Request to Ask Members to Authorize Bidding by AIG, be withdrawn from consideration.

The following resolutions were each discussed in turn and, upon a motion duly made and seconded, it was unanimously

22D. RESOLVED, that the Manager is hereby authorized to revise the proposed Comprehensive General Liability Indemnification and Risk-Management Contract into a textually consistent document; and it was

FURTHER RESOLVED, that these revisions shall not change the substance of the proposed Indemnification and Risk-Management Contract, and it was

FURTHER RESOLVED, that the final form of both the Comprehensive General Liability and Errors and Omissions Liability Indemnification and Risk-Management Contracts shall be subject to approval of the Board of Directors.

The Manager addressed the next item on the Agenda, Need for Binders and Certificates of Insurance for Members, and indicated that binders and certificates would be made available to Members upon request.

The Board took no action on this item.

The Board considered and discussed the next item on the Agenda, Frequency of Financial Reporting. The President called for a vote, and, upon a motion duly made and seconded, it was unanimously

22F. RESOLVED, that the Manager is hereby directed to submit Financial Statements and Reports of Claims and Losses to the Board on a monthly basis.

The Board then considered the following other business:

The Secretary reported that documents relating to the creation and subsequent history of the effort which culminated in the formation of the Corporation were being collected. He indicated that a Report to the Board would be forthcoming. The Board took no action on the report.

The Board next considered the Report of the Claims Handling/Loss Prevention Subcommittee of The Presidents Council Task Force on Insurance, and, upon a motion duly made and seconded, it was unanimously

23. RESOLVED, that the policies contained in the Report of the Claims Handling/Loss Prevention Subcommittee of the Presidents Council Task Force on Insurance be adopted as the policies of the Corporation; and it was

FURTHER RESOLVED, that a copy of the Report be placed in the Records of the Corporation.

The next agenda item, Designation of Place and Time of the Next Meeting of The Board of Directors was reviewed by the Board and discussed. The President called for a vote, and upon a motion duly made and seconded, it was unanimously

24. RESOLVED, that the Time and Place of the next Board of Directors Meeting shall be:

TIME: Thursday, July 2, 1987 at 9:30 a.m.
PLACE: State Bar Building
306 Townsend
Lansing, Michigan

The President directed the Secretary to prepare an Agenda for the next meeting consisting of all of the business deferred at this meeting and such other matters as should come before the Board.

Upon a motion duly made and seconded, it was unanimously

25. RESOLVED, that the officers of the Corporation shall be, and hereby are, authorized and empowered in the name and on behalf of the Corporation to do any and all acts and things and execute any other instruments and documents which may be or become necessary, desirable or proper to carry out, put into effect and make operative any portion or portions of the foregoing resolutions.

IN WITNESS WHEREOF, the undersigned Secretary of the Corporation hereby certifies that the foregoing Minutes are true and accurate account of the actions taken by the Board of Directors of the Corporation at its Meeting of June 25, 1987.

SUMMARY

The implementation and operational phase of the effort to resolve a common risk financing problem began in January 1987, and ended with the signing of a participation agreement by ten representatives of publicly supported baccalaureate granting institutions on June 25, 1987.

Institutional administrators involved in the attempt to establish a joint pooling arrangement faced adversities which would have proved insurmountable to less dedicated individuals. The major problem the Implementation Task Force had to overcome involved the establishment of legal authority to pool risk. The difficulties with legislation and Attorney General's opinion are documented in Chapter IV. It is this investigator's opinion that the legislative process met with opposition because of the article concerning the Michigan Municipal Risk Management Authority, a pool formed in Michigan under 1982 P.A. 138. The article entitled "Godsend or Gamble?" published in the Business Insurance Weekly Report raised concerns about the financial liability of this pool. This adverse publicity heightened legislative awareness of possible problems which might result from pooling insurance coverages. As a consequence, legislators were interested in instituting legislation which would require self-insurance programs be regulated and controlled more closely. This possible legislated control

was perceived by Institutions of Higher Education as an infringement on granted powers as stated in Article 8 Section 5 and 6 of the 1963 Constitution of the State of Michigan.

Also, during this phase of study the necessary documents for a pooling agreement were created. Of particular importance was the development of the participation agreement (see Appendix B). This document included the established guidelines agreed to by participating institutions.

While the first phase of much of the work involved data gathering and analysis, the second phase required that Implementation Task Force members be creative problem solvers. When issues appeared to provide a roadblock to further progress, it became necessary to develop strategies to overcome problems. This creativity can be evidenced in the work of the five subcommittees.

With the signing of the participation agreement and the pledge of financial contributions, the Michigan Higher Education Group Self-Insurance and Risk Management Facility, a Michigan non-profit corporation, became operational on July 1, 1987.

NOTES

CHAPTER IV

1. "Minutes of the Michigan College and University Risk Management Organization," 15 January 1987.
2. Ibid.
3. "Minutes of the Board of Trustees Meeting, Michigan State University," 6 February 1987.
4. "P.A. 1951 35, as amended by 1982 P.A. 138 (MCL 124.1 et seq.; MSA 5.4081 et. seq.)
5. Douglas McLeod, "Godsend or Gamble," Business Insurance, 6 February 1987, p. 1.
6. Mary Brown, Memorandum to the Michigan House of Representatives, 24 February 1987.
7. "Draft Legislation (H.B. 4407) of the Presidents Council of State Colleges and Universities," 18 March 1987.
8. "Draft Legislation (H.B. 4407) of the House Committee of Colleges and Universities," Section 11, 8 April 1987.
9. "Minutes of the Board of Regents Meeting, Eastern Michigan University," 8 April 1987.
10. "Minutes of the Board of Control Meeting, Ferris State College," 11 April 1987.
11. Ibid.
12. J.F. Brinkerhoff, Letter to Robert J. Romkema, Chairperson of the Liability Task Force, 20 April 1987.
13. "Minutes of the State Colleges and Universities President Council," 28, April 1987.
14. "Minutes of the Board of Governors Meeting, Wayne State University," 1 May 1987.
15. "Minutes of the Board of Control Meeting, Grand Valley State Colleges," 8 May 1987.
16. "Minutes of the Michigan Colleges and Universities Risk Management Organization," 13 May 1987.

17. Stanley D. Steinborn, Letter to Glenn Stevens, Executive Director of the State Colleges and Universities Presidents Council, 20 May 1987.
18. "Minutes of the Board of Control Meeting, Michigan Technological University," 22 May 1987.
19. "Minutes of the Board of Trustees Meeting, Central Michigan University," 5 June 1987.
20. "Draft Legislation (H.B. 4407) of the Senate Commerce and Technology Committee," Section II, 3 June 1987.
21. "Minutes of the Board of Trustees Meeting, Western Michigan University," 9 June 1987.
22. "Minutes of the Board of Trustees Meeting, Oakland University," 10 June 1987.
23. "Minutes of the Board of Directors of the Michigan Higher Education Group Self-Insurance and Risk-Management Facility," 25 June 1987.

CHAPTER V

SUMMARY OF THE FINDINGS - IMPLICATIONS AND DISCUSSION

This chapter summarizes the findings derived from analysis of the chronicling of the two-year effort to resolve a common risk management problem impacting the four-year public colleges and universities of Michigan. This investigator's research questions and assumptions are restated, followed with findings derived from the investigation. Also included are implications for further study, as well as reflections of this investigator regarding this research project.

Research Question 1

What process was used by the participants in the search for an alternative form of financing institutional risks?

The two-year process used to resolve a common risk management problem necessitated approaching the problem in two phases. The first phase of the process included:

- recognition of the problem and agreement to cooperatively work together toward a solution.
- dedicating the required human and financial resources to effectively study the problem.
- determining a forum for study of the problem (formation of a task force).

- thoroughly studying the problem, attempting to identify all issues.
- engaging the necessary external expertise to assist in identification of an appropriate course of action.
- presenting alternatives to decision makers (Presidents Council of State Colleges and Universities) requesting authority to implement a chosen alternative.
- receiving support to proceed with implementation phase is given.

The second phase of the process required:

- dedicating additional human resources (expansion of the original task force to 27 member Implementation Task Force).
- expanding a forum (formation of the Implementation Task Force) to allow joint constructive dialogue, review and acceptance of subcommittee recommendations.
- clearly identifying benefits of joint participation.
- developing documentations which precisely stated both the responsibilities of the members of the pool and those of the corporation.
- recommendation to decision makers (boards of each institution) to enter into a joint venture.

- implementation of the chosen alternative.

The process instituted under the auspices of the Presidents Council of State Colleges and Universities was of such magnitude that an effective forum was required for organizing, debating and concluding issues which were important to institutional administrators. This was accomplished by the use of a task force and subcommittee structure.

To evaluate the effectiveness of the use of the task forces and subcommittees, this investigator made a post analysis of how effective task forces function in the business environment of large corporations and compared these identified characteristics with the public colleges and universities utilization of the task force concept.

In their book, In Search of Excellence, authors Thomas J. Peters and Robert H. Waterman, Jr. (1984) discuss how effective task forces function in the private sector. The authors state that task forces can be remarkably effective problem solving tools if the following guidelines are adhered to:

Size - Effective task forces usually are comprised of ten or fewer members. There is a need to limit task force activities to those individuals who have principal interest in the project.

Composition - The task force reporting level and the seniority of its members are proportional to the importance of the problem. In private enterprise, if the problem is major, virtually all task members are senior executives. The kinds of people wanted on the task forces are busy people whose main objective is to get off the task force and back to the other tasks.

Duration - The duration of the typical task force is very limited. Among the exemplary business firms, the idea that any task force could last more than six months is repugnant.

Assignment - Membership is usually voluntary.

Task Force Development - The task force is pulled together rapidly, when needed and usually not accompanied by a formal chartering process. In business, task force work is the primary means of problem solving in complex, multi-functional environments; companies are able to pull task forces together with little fanfare.

Follow-up results - Follow-up is swift. After the task force is formed, senior management wants to know what happened as a result.

Staff assignment - There are no permanent staff members assigned to task forces.

Documentation - Documentation is informal at most, and often scant in the business environment. Task forces are not in the business of producing paper. They are formed to produce results.

Interaction - Contact among task force members is intense and there is weekly review of progress and decision on changes.

Decision authority - People attending meetings have the authority to make binding decisions.¹

These previously listed task force characteristics identified by authors Peters and Waterman (1984) were used in a post comparison to determine whether the public colleges and universities' use of the task force compared favorably with use in the private sector.

Size

In the first phase of the problem solving effort, the Liability Task Force was made up of ten members. The second phase of the effort resulted in the expansion of the original task force to a 27 member Implementation Task Force. This group was then broken into subcommittees and assigned certain responsibilities. A Steering Committee was formed within the

structure and was responsible for coordination and overseeing the completion of subcommittee work. This structure proved to be a successful method of dealing with the varied and complex issues. While it might appear that numbers of task force members (27) would prove too cumbersome for resolving issues, the subcommittee structure allowed for resolution of difficult decisions.

Composition

The makeup of both the original Liability Task Force and the Implementation Task Force was comprised of institutional legal officers, risk managers and business officers. This administrative representation reflected both the importance of the project and the recognition that specialized expertise was required to resolve the complex issues. The involvement of the Presidents Council and its Executive Director was further verification of the importance of the work of the task force. The amount of time allocated to task force participation by institutional administrators was significant and many task members expressed their pleasure upon completion of the project. They were now able to dedicate their efforts in other institutional matters.

Duration

The existence of both the Liability and Implementation Task Forces went well beyond what is considered acceptable in the private sector. The Liability Task Force remained active for fifteen months. The extended period was a result

of the need for data gathering required for both institutional and aggregate actuarial studies.

There must be recognition that this was a joint voluntary effort among very diverse entities which required a slow tactful approach. Both the liability and implementation task force could request, but not necessarily demand, action from participants.

The Implementation Task Force remained in existence for six months and might well have completed its work sooner if progress had not slowed by unanticipated outside influences. While the duration of the task force was lengthy, the final outcome of establishing an alternative to commercial insurance was successful.

Assignment

In the first phase of the project, the Liability Task Force members were assigned on the basis of willingness to serve. During the implementation phase of the project, each institution assigned two administrators to the expanded task force. The assignment to the Implementation Task Force was not voluntary, but those administrators assigned would be directly affected by the outcome of any pooling arrangement. Therefore, each member was committed to producing the best possible outcome.

Task Force Development

The Liability Task Force was formed fairly quickly after

a recognition of the need to study the institution's risk financing problems. Also, the task force was assigned a specific task as previously described in the study. The expanded implementation task was given a stated goal by the Presidents Council. There was to be an alternative to commercial insurance available to the institutions by July 1, 1987.

Follow-up

It is evident throughout the chronicling process that in both Phase I and Phase II, the task force members did not procrastinate in working to complete the assignments. Any difficulties or slowdowns were a result of outside influences over which the Liability or Implementation Task Force had no control. The problems concerning legislation as described in Chapter IV are examples of outside influence. The major problem encountered by the task force involved timeliness of communications. This problem became particularly acute during the implementation phase of the project. Subcommittees were drafting documents, distributing them to the total task force and receiving recommendations back. The sheer volume of documents being distributed among the institutional administrators, resulted in some confusion concerning which drafts were most current. Business task forces are comprised of individuals representing the same entity which normally requires less need for documentation. In the case of the Liability and Implementation Task Force, the composition of membership was representative of thirteen separate entities. As a result,

extensive documentation was required to clearly identify the stated agreements of the group.

Staff Assignment

There was no permanent staff assigned to Phase I or II of the project. The Executive Director of the Presidents Council orchestrated and coordinated many of the activities of the group, but this was not a full-time assignment.

Documentation

The documentation created by the Liability and Implementation Task Forces was enormous. It can be said the business of the task force was to create documents that would serve the interests of the participating institutions. While authors Peters and Waterman (1984) state that task forces are not in the business of producing paper but are formed to produce results, in this instance the major responsibilities of the Task Force were to produce agreements which would be acceptable to all participants. These could only be accomplished through extensive documentation.

Interaction

One of the major difficulties was the geographic distances of institutions participating in the project. Continuous review and updating of the status of the project had to be done largely by correspondence. The dedication of the participating administrators helped reduce the impact of the communication problem by generating and distributing

updated documentation in a timely manner.

Decision Authority

The composition of the Liability and Implementation Task Forces was discussed previously. These administrators representing each institution did not have final authority to commit their institutions to any joint effort. However, it was necessary for these administrators to be satisfied with the final outcome of the group's efforts in order to recommend participation to institutional boards. Each institution had representatives assigned to the project who could articulate directly to the boards. Since institutional boards normally accept the recommendation of administration in such matters, it can be stated that appropriate levels of administration were assigned to the joint risk sharing venture.

The Liability and Implementation Task Forces did not mirror Peters and Waterman's description of effective task force guidelines. Nonetheless, in this investigator's opinion, whatever characteristics were not present, the dedication of the participating institutional administrators provided the necessary elements in concluding a successful resolution to the problem.

The investigator also reviewed group decision making with Ellen Earle Chaffee's model of rational decision making as described in her book, Rational Decisionmaking in Higher Education (1983). This was done to clarify the element of

decision making which occurred during the process. Chaffee (1983) states that the process of making a decision involves choice, process and change:

- choice is when there is choice among alternative courses of action
- process involves interaction among people and requires time to unfold. It begins with the need for a decision and continues through the decision itself to its effect on the organization
- change is the result of organizational decisions

Choice has these underlying features:

1. the values of the organization and the actors within it
2. the alternative courses of action considered
3. the premise directing the consideration of alternatives

The consequences of choice:

1. an implementation procedure for carrying out choice
2. results consisting of changes both external and internal
3. feedback that acts as both output and input²

Chaffee's (1983) description of a rational decision making model best describes the decision making process used by participants during the search for alternatives to the traditional form of financial institutional risks.

The author lists the following condition requirements for any organization to use the rational model successfully:

- the participants must share a common goal or set of goals
- the participants must have reasonably congruent ideas and attitudes about how to achieve them
- the participants must be engaged in processes for which they understand cause-effect relationships
- to the extent that the problem is complex, they need technical competence to unravel those relationships
- the participants must enact the process sequentially with respect to each problem³

As evidenced in this investigator's study, the previously listed conditions and requirements were present. It is this investigator's opinion that Chaffee's rational decision making model was used to the greatest extent throughout the two-year problem solving effort.

Chaffee further clarifies features and consequences of choice involved with the rational decision making model. The underlying features of choice and consequence are described as follows:

Values

Decision makers process known values, ordered according

to relative preferences, prior to making decisions. A prioritization of values is necessary in order to act as an organizing element and focus for committed action. With goals identified those participating in the decision making process can agree about why they are involved, although recommended courses of action may vary.

Alternatives

The rational model implies that alternative courses of action constitute means to an end resulting from identified values. The premise underlying choice is then to maximize the likelihood of achieving those ends. To make comparisons implied by this kind of choice, participants must consider the array of alternatives simultaneously. They must have some control area or forum in which to place and examine the alternative and they must understand the processes by which cause-and-effect relationships turn inputs into outputs. That is, the participants must have some grounds for believing that engaging in a chosen activity will produce the expected results.

Choice

In the case of rational decision making, choice is a deliberate action. When, how, and by whom the decision is made should be identifiable. At the time of decision, participants are theoretically capable of predicting the results on probable results of choice, and those outcomes are foreseen and intended.

Implementation, Results and Feedback

In the rational decision making model, implementation is straight forward; the list of preferences and the logic behind the decision should lessen dissent and surprise. The users of feedback information must have the analytical skills to understand it, the open mindedness to be receptive to it, and the orderly procedures to channel it back into the decision process.⁴

It can be concluded that group decision making used in the resolution of this problem and the use of Chaffee's rational decision making is evidenced in both Chapter III and IV of the study. The condition requirements for using the rational decision making model were present throughout the group problem solving effort.

1. Institutional administrators identified a common goal of reducing insurance costs and improving the quality of coverage.
2. Institutional administrators recognized that a joint effort and sharing of risk might achieve their common goal.
3. Institutional administrators thoroughly reviewed the potential solutions to the problem, carefully weighing cause and effect of each potential solution.

4. Institutional administrators recognized the need to secure additional expertise. Both actuarial and legal consultants were hired to help evaluate and resolve complex issues.
5. Institutional administrators approached the problem solving effort sequentially. Phase I of the joint group effort involved exploration and recommendations for resolution of the problem. The second phase of the process included implementation and operation of an alternative to the traditional method of financing institutional risk.

Also, the developed participation agreement is reflective of rational decision making by the Implementation Task Force.

Research Question 2

Can autonomous publicly supported institutions in Michigan join together to resolve a common problem impacting individual institutions?

The answer to this question can be stated in the affirmative. The institutional representatives demonstrated the ability to focus on searching out an alternative to commercial insurance. While all institutions did not join the cooperative venture, each institution's contributions to the process enhanced the effectiveness of the group's results. For example, the University of Michigan's decision not to participate in the pool did not result in withdrawal of

commitment to the effort. The Vice President of Business committed the university's administrators to continually assist in the project until completion. The continued input was very helpful in the establishment of the claims handling procedures developed for the pool.

It should be noted that all institutions benefited from the project, although three institutions chose not to join the newly formed corporation. Both Lake Superior State College and Saginaw Valley State College were able to approach commercial insurance carriers indicating to them that should insurance pricing or quality of coverage being offered prove unacceptable, then the Michigan Higher Education Group Self-Insurance and Risk Management Facility would offer an available alternative. The University of Michigan would also have the opportunity to pool risks, should it prove to be advantageous in the future.

Research Question 3

Are there identifiable strengths in the development process which are transferable should future joint efforts to resolve common problems be attempted?

The primary identifiable strength of the process was that the problem being addressed was clearly distinguishable and of mutual concern to all participants. Institutions were paying exorbitant costs for commercial insurance and in some cases were unable to attain insurance coverages at any cost.

Being able to clearly identify the problem gave the group a common point from which to begin. In order to succeed in joint problem solving, there needs to be clear recognition of the severity of the problem affecting the group. The problem must be significant and uniform in its impact on the participants.

Secondly, those individuals who are assigned to problem resolution must be committed to the group effort. In the case of the risk financing problem, administrators representing individual institutions were required to take on extensive additional work to their regularly assigned duties. The public four-year colleges and universities in Michigan have geographic locations which stretch from the very northern tip of the upper peninsula to the southern most point in the state. The requirements placed on administrators to meet regularly to conclude a resolution to the common risk management problem were extreme. With rare exception, all institutions were represented at the numerous meetings.

The decision to form a task force, and later to expand this group to an Implementation Task Force, proved an effective method of dealing with the various issues which needed to be addressed. The concept of reducing the large Implementation Task Force in smaller subcommittees and assigning specific responsibilities to each subcommittee also proved to be very effective.

The initial concept of exploring an alternative was

generated by the MCURMO organization. The reception of this group's idea is a strong indicator that good communication exists between the administrative reporting levels at the public colleges and universities. The composition of the Liability and Implementation Task Force was such that the proper combination of administrators was involved. The risk managers understood the insurance component of the problem and institutional business officers had the finance expertise to evaluate financial implications of the chosen alternative.

Identifying the rational decision making model as defined by author Chaffee (1983) is an important element in the problem solving effort. Should future joint ventures be undertaken, recognition and understanding of the rational decision making model and components might well reduce difficulties in decision making.

The importance of the Presidents Council and the Executive Director in any joint problem solving effort cannot be overstated. At various points of the problem solving effort, the Executive Director was a moderating influence, providing proper perspective to difficult issues. The Executive Director's efforts are evident throughout this study. Without this effective leadership, there would not have been a successful conclusion to the two-year effort.

This investigator assumed that the resolution of two underlying assumptions needed to be resolved if there was to

be a successful resolution of a common risk management problem impacting the publicly supported colleges and universities of Michigan.

This investigator assumed that any erosion of institutional autonomy resulting from the collaborative effort would be unacceptable to participating institutions.

This investigator also assumed that joint agreements which might erode institutional decision making would not result in a joint agreement. However, it became obvious that in a group program, participation by each member would result in less individual control. In order to accept the loss of individual institutional control, the group effort would provide each institution with the authority to withdraw from the group risk sharing facility with a penalty of loss of original capital. Therefore, should a situation arise that is totally inconsistent with the desires of the member, the option to withdraw is available.

Also, the flexibility offered in the participation agreement (see Appendix B) affords each institution control over claims handling and litigation management, types of coverages and limits of coverages that had not been available in commercial insurance. The tradeoffs of loss of some individual control for advantages previously mentioned were acceptable to ten of the thirteen publicly supported institutions.

When this investigator made the assumption concerning

institutional autonomy, there was no anticipation of the difficulties which would be experienced with the legislative process as described in Chapter IV. For example, the Senate version of H.B. 4407 would have placed the Risk Sharing Facility under the direct supervision and control of the State Insurance Commissioner. The resulting encroachment by a State agency on the Constitutionally granted autonomy of the public four-year baccalaureate granting institutions was unacceptable to institutional administrators. The efforts of the group to eliminate possible infringement of constitutional granted autonomy, as provided in the 1963 Constitution of the State of Michigan, Article 8, Section 5 & 6, are documented in Chapter IV.

At this writing, no legislation has been passed affecting the operation of the non-profit corporation. Should these occur, it is not clear to this investigator whether institutions would withdraw from the corporation because of outside interference.

This investigator's second assumption was any effort by larger institutions to influence or to dominate because of size, the direction or outcome of the effort would be unacceptable to the participating institutions.

During the entire problem solving effort, this investigator did not observe any effort by the larger institutions to dominate this process. In the first phase of the project,

there was recommendation that voting rights of the board of governors of any pool would be allocated by a formula which would recognize the significant variance in financial participation. However, during the second phase of the study this recommendation was not considered seriously. The final recommendations concerning voting resulted in one vote per institution with each institution having equal participation in the operation of the pool.

This investigator represented the interests of one of the smaller institutions during the two-year process. Throughout the entire period, this investigator felt that provision was made for equitable participation by all the institutions' representatives in the process.

Implications for Further Study

This historic undertaking by the publicly supported institutions of higher education of Michigan could have implications for other possible joint ventures should the Michigan Higher Education Group Self-Insurance and Risk-Management Facility prove to be as successful as anticipated.

School systems, community colleges and private institutions both within the state of Michigan and across the United States could also benefit by banding together and using the general concept described in this study.

Further research should be undertaken, reviewing the

first five years of the corporation's operation. An important aspect of any further study should include consideration of how board members of the corporation are able to manage the difficulty of serving both the best interests of the corporation and also the interests of their respective institutions. The method used to resolve this potential conflict will be the key to effective future operation of the corporation.

Discussion

As a result of the successful resolution of the common risk financing problem, this investigator felt that several elements in the process should be discussed and considered important in any future joint problem solving efforts.

It is important to clearly recognize that joint ventures involving Michigan's publicly supported institutions of higher education must be voluntary and instituted by the universities themselves. It is the opinion of this investigator that failure of the 1976 pooling effort as discussed in Chapter II, was a direct result of the perception of institutional administrators that state government was attempting to legislate, thus erode institutional autonomy. The successful 1987 pooling effort can be attributed to the belief that the pooling concept originated from institutional administrators and resulted in actions which were self-imposed by each of the participants.

The importance of the Michigan College and University

Risk Managers Organization in the process should be fully recognized. A high degree of trust had existed among the members of this organization prior to entering into the joint voluntary problem solving effort. The willingness of this group to share important information and to help each other with common institutional risk management problems is evidenced throughout MCURMO's history. When considering problem solving efforts among diverse, autonomous institutions, it is advisable to include a group with the previously described characteristics of trust in joint problem solving efforts. The willingness of the MCURMO representatives to view the problem solving effort from both the institutional and group perspective was key to a successful resolution. Many times group efforts fail because those assigned to resolve a problem do not fully understand the complexity of the issue or are not seriously committed to resolving the problem.

At various points, three participating institutions involved in the process chose to drop out. Groups attempting to problem solve must be willing to face the possibility that the total group does not necessarily have to take part in the final resolution in order to enjoy success. In fact, circumstances of withdrawal may enhance the group's resolve to succeed. For example, when the University of Michigan withdrew because of the desire to concentrate on the operation of their own captive insurance company, it may have provided additional motivation to the rest of the group participants.

The thinking of the group may have been if one institution could find a solution to their insurance problems, it therefore makes sense that the rest of the group could do the same.

The administrative make-up of both the Liability Task Force and Implementation Task Force was previously discussed. Risk managers, business officers and legal officers joined together attempting to become problem solvers. Administrators represented various institutional reporting levels of authority. However, in this problem solving effort, all participants were co-workers and positions of authority did not inhibit the willingness or ability of each participant to provide input to decision making and problem solving.

The process undertaken by the colleges and universities lends credence to author John Naisbitt's book, Megatrends. The author discusses the trend away from institutional help to self-help. Naisbitt states that for decades, institutions such as the government, the medical establishment, the corporation and the school system were America's buffers against life's harsh realities. Naisbitt sees a trend in which individuals have become disillusioned with the previously mentioned institutions and Americans are relearning the ability to take action on their own. America is reclaiming its traditional sense of self-reliance.⁵

Naisbitt further states that somewhere between the shift from institutional help to self-help comes the question "Can

I really do it on my own?" For some people, there is a crisis of confidence, a fear that one is not yet up to the challenge of self-help, perhaps a desire to cling to the comfort of depending on others. Others are very assertive about taking care of things themselves.⁶

The theme of self-help discussed by author Naisbitt can be evidenced in the creation of a self-insurance corporation by the publicly supported colleges and universities in Michigan. The failure of the large insurance corporations to adequately provide a required product, forced institutional administrators to work together, relying on one another to resolve a problem. This investigator believes that there is a new feeling of each institution having a greater degree to control the destiny of their respective institutions.

A major concern of this researcher was that this study accurately portray the efforts of the many dedicated administrators who worked on this project.

This investigator believes that the chronicling accurately reflects what transpired over the two-year period resulting in the formation and operation of a non-profit corporation formally titled, The Michigan Higher Education Group Self-Insurance and Risk Management Facility.

NOTES

CHAPTER V

1. Thomas J. Peters and Robert H. Waterman, Jr., In Search of Excellence, New York, N.Y.: Warner Book Inc., 1984, p. 129-131.
2. Ellen Earle Chaffee, Rational Decisionmaking in Higher Education, Boulder, Colorado: National Center for Higher Education Management Systems, 1983, p. 8-10.
3. Ibid., p. 15.
4. Ibid.
5. John Naisbitt, Megatrends, New York, N.Y.: Warner Books Inc., 1984, p. 143.
6. Ibid., p. 173.

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APPENDICES

APPENDIX A
INSTITUTIONAL SURVEY

September 15, 1987

Mr. Lyle E. Shaw
V.P. Finance and Administration
Northern Michigan University
502 Cohodas Admin. Building
Marquette, MI 49855

Dear Mr. Shaw:

Currently, I am working on a dissertation which involves the chronicling of the efforts of the Michigan colleges and universities to resolve a common risk financing problem.

In order for me to effectively describe and chronicle the process, there is a need for me to obtain the following information about Northern Michigan University:

- 1) The role and mission statement of NMU.
- 2) The 1985-86 audited Financial Statement of NMU.
- 3) The board resolution which approved NMU for participation in the joint risk sharing venture.

The time taken away from your busy schedule to honor this request would be greatly appreciated. Enclosed is a self-addressed stamped envelope for your convenience in forwarding the requested information to me.

Yours sincerely,

Richard P. Duffett
Director of Administrative Services

RPD/dl
Enclosure

APPENDIX B

Michigan Higher Education Group Self-Insurance and Risk-Management Facility Participation Agreement

**Michigan Higher Education
Group Self-Insurance and
Risk-Management Facility**

Participation Agreement

This agreement is entered into by the Board of Trustees of Central Michigan University, the Board of Regents of Eastern Michigan University, the Board of Control of Ferris State College, the Board of Control of Grand Valley State College, the Board of Trustees of Michigan State University, the Board of Control of Michigan Technological University, the Board of Control of Northern Michigan University, the Board of Trustees of Oakland University, the Board of Governors of Wayne State University and the Board of Trustees of Western Michigan University, hereinafter referred to as "Governing Boards."

RECITALS

- A. The undersigned Governing Boards exist pursuant to the Constitution of 1963, article 8, sections 5 and 6.**
- B. Each of the undersigned Governing Boards has certain risks of loss which commonly are covered by the purchase of insurance and/or by the undertaking of self-insurance.**
- C. The undersigned Governing Boards from time to time have found appropriate insurance coverage to be unavailable or excessive in cost and have determined in certain instances that self-insurance is undesirable.**
- D. In the exercise of their authority pursuant to the Constitution of 1963, article 8, sections 5 and 6, the undersigned Governing Boards intend jointly and cooperatively to establish a Group Self-Insurance and Risk-Management Facility, to provide coverage for certain risks, to purchase adequate excess insurance and/or reinsurance where available, and to undertake risk management and loss control programs.**

NOW, THEREFORE, the undersigned Governing Boards agree as follows:

**ARTICLE I
DEFINITIONS**

Section 1.1. As used in this Agreement, unless the context clearly requires otherwise, the following words shall have the definitions ascribed to them:

(a) "Board of Directors" or "Board" shall mean the Board authorized by Article VIII of this Agreement to govern the Facility.

(b) "Director" shall mean an individual designated by a Member to serve on the Board of Directors of the Facility created by this Agreement.

(c) "Facility" shall mean the Michigan Higher Education Group Self-Insurance and Risk-Management Facility created by and pursuant to this Agreement.

(d) "Governing Board" shall mean a governing board of a state institution of higher education existing pursuant to the Constitution of 1963, article 8, sections 5 or 6.

(e) "Indemnification and Risk-Management Contract" shall mean a contract between the Facility and its Members by which the Facility agrees to provide coverages listed in Article IV of this Agreement to Members in exchange for the payments provided for in Article V of this Agreement.

(f) "Member" shall mean a Governing Board which has joined the Facility and has not withdrawn from the Facility nor been terminated from the Facility.

ARTICLE II ESTABLISHMENT OF FACILITY

Section 2.1. Establishment. There is hereby established the Michigan Higher Education Group Self-Insurance and Risk-Management Facility upon the terms and conditions stated herein. The Facility shall be formed as a non-profit corporation and shall have and may exercise all power conferred upon a non-profit corporation by the laws of the State of Michigan which are not inconsistent with this Agreement and shall have the powers conferred upon it by this Agreement. The Facility is established and shall be operated solely for the benefit of its Members and to enable the Members to manage their property and affairs and control their expenditures by obtaining coverage for various risks from the Facility.

Section 2.2. Purpose of Facility. The Facility shall be authorized to provide indemnity to Members against loss commonly covered by insurance as set out in the Indemnification and Risk-Management Contracts between the Facility and its Members, to adjust claims against Members, to provide for legal defense in connection with such losses or potential losses consistent with Article XI of the Agreement, to provide risk management and loss control services and programs, and to do all other things necessary and proper in order to efficiently provide indemnity and the related services specified in this section.

Section 2.3. Limitations of the Facility. The Facility may provide indemnity and the related services set forth in Section 2.2 only for its Members existing pursuant to the constitution of 1963, article 8, sections 5 or 6. The Facility may act on behalf of and may bind Members only in the circumstances and to the extent authorized by or

pursuant to this Agreement.

Section 2.4. Facility Not an Insurer. The Facility is not an insurer and may not engage in the business of insurance as defined by the Michigan Insurance Code of 1956, MCL 500.100 et seq. The powers and duties created hereunder and the acts of the Facility and its Members with respect to their participation in this Facility shall not constitute doing an insurance business.

ARTICLE III MEMBERSHIP

Section 3.1. Eligibility. Membership in the Facility shall be limited to Governing Boards as that term is defined herein and shall consist of the original signatories to this Agreement and any other such Governing Board subsequently admitted to the Membership of the Facility which signs this Agreement. The Facility may establish such terms and conditions for membership subsequent to the effective date of this Agreement as it deems, in its sole discretion, to be reasonable and appropriate. Subsequent membership shall be authorized by the Board of Directors only upon a favorable vote of the majority of the Board of Directors.

Section 3.2. Termination. After a Member has been given an opportunity to meet and confer with the Board of Directors, the Board of Directors may terminate the Member from the Facility by a vote of the majority of the Board of Directors for any of the following acts or omissions:

- (a) the repeated or continuing refusal to make payments when due;
- (b) the gross or repeated failure or refusal to cooperate reasonably in the defense of claims for which the Facility may be liable to the Members;
- (c) the gross or repeated failure or refusal to cooperate reasonably in the investigation of claims for which the Facility may be liable to the Member; and
- (d) the gross or repeated failure or refusal to cooperate reasonably with or participate in risk management, loss control, or loss avoidance programs of the Facility.

Section 3.3. Termination Rights and Obligations. A Member shall be given not less than 90 days' notice of termination, and upon termination shall have no right to receive any funds of the Facility at the time of termination or thereafter, including but not limited to any initial or subsequent payments made to the Facility, any rebate or return of payments later declared by the Facility and any other return of funds by the Facility to its Members by whatever method. For coverages provided on an occurrence basis prior to the effective date of termination, the terminated Member shall be covered only for occurrences

prior to the effective date of termination and during which an Indemnification and Risk-Management contract was in effect between the Facility and the terminated Member covering the occurrence. For coverages provided on a claims made basis prior to the effective date of termination, the terminated Member shall be covered only for claims made prior to the effective date of termination and during which an Indemnification and Risk-Management Contract was in effect between the Facility and the terminated Member covering the claim. A terminated Member shall, however, remain subject to assessments for additional payments attributable to the years or portions of years the terminated Member was a Member of the Facility, provided that any such assessment shall be levied upon the terminated Member on the same basis as it is levied upon Members.

ARTICLE IV COVERAGES

Section 4.1. Authorized coverages. The Facility may provide indemnification to Members by contract on such terms and conditions as it shall deem appropriate for losses of Members arising from or related to:

- (a) General Liability, including but not limited to
 - (i) Dramshop Liability;
 - (ii) Police Professional Liability;
- (b) Errors and Omissions Liability;
- (c) property.

Section 4.2. Mandatory Coverages. A Member shall contract for general liability and errors and omissions liability coverages from the Facility for coverage periods up to and including June 30, 1992.

Section 4.3. Other Coverages. The Facility may provide other coverages similar to or related to those listed. This agreement shall not be construed to require a Member to contract with the Facility for coverages other than the coverages mandated by Section 4.2. Any additional coverages offered by the Facility subsequent to its first year of operation shall be offered on a voluntary basis and shall be priced, accounted for, and in all other ways kept separate by the Facility from the assets and liabilities attributable to the coverages provided initially.

Section 4.4. Limits. The Facility may establish the limits of its responsibility to indemnify and defend Members and may establish deductibles and retentions for Members with respect to the coverages provided. The amount of each kind of coverage provided by the Facility in excess of any retention or deductible of a Member shall be the same for each Member.

Section 4.5. Reserves. The Facility shall periodically establish and maintain adequate reserves for the indemnifications it has undertaken to provide.

ARTICLE V PAYMENTS

Section 5.1. Initial Payment. On or before July 1, 1987, each Member shall make an initial payment to the Facility in an amount established by the Board of Directors. Members admitted to the Facility subsequent to July 1, 1987, shall made an initial payment in an amount established by the Board of Directors and shall be subject to such terms and conditions as are prescribed by the Board of Directors.

Section 5.2. Periodic Payments. Each Member shall make payments annually, or for such other periods as are required by the Board of Directors, in amounts established by the Board of Directors as a condition of receiving the coverage and related services to be provided by the Facility for the period for which the payment is required. Periodic payment amounts may be established by the Facility for a Member based only upon factors which are reasonably related to the exposure of the Facility for the coverages to be provided for the Member.

Section 5.3. Additional Payments. If the Board of Directors determine that:

(a) The assets of the Facility are likely insufficient to meet the likely obligations and expenses of the Facility; or

(b) The assets of the Facility attributable to a particular year or years are likely insufficient to meet the likely obligations and expenses of the Facility attributable to the same year or years; or

(c) The initial payments of Members have been used, in whole or in part, to meet obligations of the Facility;

then the Board of Directors may levy an assessment or assessments for additional payments upon its Members and, in the case of an assessment pursuant to subparagraph (a) or (b) of this section, upon terminated or withdrawn Members who were Members during the period that gave rise to the assessment. An assessment against a terminated or withdrawn Member shall be levied on the same basis as it is levied against Members and, if the terminated or withdrawn Member was a Member for only a part of the period which gives rise to the assessment, then appropriate account shall be taken of the partial period of membership of the terminated or withdrawn Member. Assessment for additional payments shall be due and payable on the date set by the Board of Directors.

For an assessment for additional payment pursuant to

subparagraph (a) or (b) of this section, in no case shall the total additional payments assessed for each year for which an assessment is levied be greater than the difference between the total periodic payments made for each respective year (less administrative expenses attributable to the same year) and the dollar limits of coverage provided to each Member by the Facility in each respective year. As used in this section, the term "dollar limits of coverage" shall not be construed to include any limits of coverage provided by the Facility to the extent the Facility had in force excess insurance, stop-loss insurance, reinsurance, or similar insurance to the limit the exposure of the Facility. For an assessment pursuant to subparagraph (c) of this section, in no case shall the total additional payments assessed be greater than the portion of initial payments established by the Facility pursuant to Section 5.1 which have been used to meet obligations of the Facility.

Additional payments to defray an estimated insufficiency pursuant to subparagraph (a) or (b) of this section shall be assessed against each Member (and, where authorized, each terminated and withdrawn Member) according to the following formula: the periodic payments made by the Member, terminated Member, or withdrawn Member for the coverage period or periods giving rise to the assessment shall be calculated, that sum shall be divided by the total periodic payments for the same coverage period or periods made by all Members during that coverage period or periods; and then the quotient derived shall be multiplied by the total estimated insufficiency. Additional payments assessed pursuant to subparagraph (c) of this section shall be assessed against each Member according to the following formula: each Member's initial payment shall be divided by the total of all initial payments made by the Members to be assessed, and then the quotient derived shall be multiplied by the total amount to be assessed.

The Board of Directors may adopt a formula for allocating an assessment for additional payments among its Members (including, where authorized, terminated or withdrawn Members), which formula may be different than that provided by this section. Any such new formula shall be adopted by written resolution of a majority of the Board of Directors and shall be fairly and equitably only upon one or more of the following factors: (a) periodic payments of Members; (b) initial payments of Members; and/or (c) loss experience of Members.

Section 5.4. Payment Schedule. The first payments required pursuant to Section 5.1, and 5.2, shall be those set forth on Schedule A attached to and made part of this Agreement.

Section 5.5. Excess Assets. If the Board of Directors determines that the assets of the Facility are likely more than sufficient to meet the likely obligations and expenses

of the Facility, or if the Board of Directors determines that the assets of the Facility attributable to a particular year or years are likely more than sufficient to meet the likely obligations and expenses of the Facility attributable to the same year or years, the Board of Directors shall either return the surplus to its Members, credit the surplus toward future Member payments or provide for increased or expanded coverages for its Members.

The Board of Directors shall return surplus, credit surplus against future payments or provide for increased or expanded coverages for its Members on a fair and equitable basis.

Surplus shall be returned or credited according to the following formula: Each Member's periodic payment for the year or years that gave rise to the surplus shall be divided by the total periodic payments for the same year or years by all Members and then the quotient derived shall be multiplied by the total surplus for the same year or years.

The Board of Directors may adopt a different formula for allocating surplus among its Members, which formula shall be adopted by written resolution of a majority of the Board of Directors and shall be based fairly and equitably only upon one or more of the following factors: (a) periodic payments of Members; (b) initial payments of Members; and/or (c) loss experience of Members.

Section 5.6. Actuarial Advice. Initial Payments pursuant to Section 5.1, Periodic Payments pursuant to Section 5.2, Additional Payments pursuant to Section 5.3, and actions pursuant to Section 5.5 shall be established by the Board of Directors only after consideration of advice and recommendations of an actuary or consulting actuary certified by the Casualty Actuarial Society as qualified to provide such advice for the coverages provided by the Facility.

Section 5.7. Ownership and Investment. The Facility shall be the owner of the payments made to the Facility and of the assets of the Facility. The Facility may hold, disburse, invest and reinvest its funds and sell, transfer, encumber or otherwise manage its assets as it deems necessary and appropriate. The Facility shall establish and maintain at all times a prudent investment policy which is reasonably expected to conserve the assets of the Facility, provide a reasonable investment on return, and enable the Facility to meet its obligations to Members. Funds and assets of the Facility shall be used only for the benefit of its Members and consistent with this Agreement.

ARTICLE VI
WITHDRAWAL OF MEMBERS

Section 6.1. Voluntary Withdrawal. A Member may not withdraw from the Facility effective prior to July 1, 1992. A member shall provide written notice of withdrawal to the Board of Directors and to each Member of the Facility not less than two years prior to the date upon which withdrawal is to be effective. Once a notice of withdrawal is given, it shall be irrevocable, except that it may be revoked by the withdrawing Member with the consent of a majority of the Board of Directors.

Section 6.2. Effect of Withdrawal.

(a) For coverage provided on an occurrence basis prior to the effective date of withdrawal, the withdrawing Member shall be covered only for occurrences prior to the effective date of withdrawal and during which an Indemnification and Risk-Management Contract was in effect between the Facility and the withdrawing Member covering the occurrence. For coverage provided on a claims made basis prior to effective date of withdrawal, the withdrawing Member shall be covered only for claims made prior to the effective date of withdrawal and during which an Indemnification and Risk-Management Contract was in effect between the Facility and the withdrawing Member covering the claim. A withdrawing Member shall, however, remain subject to assessments for additional payments attributable to the years or portions of years the withdrawing Member was a Member of the Facility, provided that any such assessment shall be levied upon the withdrawing Member on the same basis as it is levied upon Members.

(b) A Member who withdraws as of a date prior to the completion of its fifth consecutive year of Membership shall be entitled to no return of its payments to the Facility, including payments pursuant to Sections 5.1, 5.2, and 5.3, and shall be entitled to no return of funds or the benefit of other actions pursuant to Section 5.5.

(c) A Member who withdraws effective on or after its fifth year of membership with appropriate written notice shall be entitled to a return of funds from the Facility. Subject to any terms or conditions prescribed pursuant to Section 5.1, the amount to be returned shall be equal to the amount of the withdrawing Member's initial payment to the Facility divided by the total initial payments made by all Members multiplied by a sum equal to the excess of assets over liabilities as shown on the annual audit conducted for the Facility for the fiscal year ending immediately before the effective date of the withdrawal. The amount to be returned shall in no event exceed the withdrawing Member's initial payment. The funds shall be paid not later than one year from the date of withdrawal. A Member who withdraws on or after the completion of its fifth year of membership shall not be entitled to receive any return of payments

pursuant to Section 5.5, except for any return of payments established and declared by the Facility prior to the date of withdrawal but which have not yet been paid by the Facility.

Section 6.3. Set-off. The Facility shall have the right of set-off against a withdrawing Member. The withdrawing Member shall have the right of set-off against the Facility.

Section 6.4. Reductions in Coverages. Notwithstanding any other provision of this Agreement, a Member may withdraw from the Facility effective at the end of any fiscal year of the Facility, upon written notice of 30 days to the Facility, if the Facility: (a) significantly reduces the limits of coverage offered through the Facility as compared to the limits of coverage provided by the Facility for its first year of operation; or (b) significantly reduces the kinds of coverage offered through the Facility as compared to the kinds of coverage provided by the Facility for its first year of operation.

A Member that withdraws pursuant to this section shall be entitled to the return of any initial payments made by the Member to the Facility pursuant to Section 5.1 and to participate in and received any return of surplus or payments subsequently made by the Facility which are attributable to the period during which the withdrawn Member was a Member.

ARTICLE VII DISSOLUTION

Section 7.1. Action for Dissolution. The operations of the Facility shall be terminated, except as provided in this article, and the Board of Directors shall proceed to dissolve the Facility, upon the receipt of a petition for dissolution from: (a) not less than a majority of the Members; or (b) from Members whose payments to the Facility in the preceding coverage period accounted for not less than 50 percent of the total payments received by the Facility from Members during that period. A petition for dissolution shall state the effective date of dissolution, which date shall not be sooner than 90 days from the date of the petition.

Section 7.2. Cessation of Coverage. The Facility shall not enter into new contracts for coverage which have effect for periods commencing on and after the effective date of dissolution.

Section 7.3. Continued Operations. On and after the effective date of dissolution, the Facility shall continue its operations as is reasonably necessary to discharge its

obligations to Members and other; shall retain sufficient assets to pay liabilities arising after the date of dissolution with respect to coverages provided before dissolution; shall endeavor to extinguish the obligations of the Facility through the economical purchase of insurance to cover past exposures, the sale of assets in exchange for liabilities, or otherwise; shall continue to manage and invest its assets; and, in general, shall endeavor to wind up the affairs of the Facility as soon as it can be accomplished economically.

Section 7.4. Excess or Deficient Funds. After the Facility has discharged, extinguished, or made adequate provision for its obligations to its Members and others, any excess assets shall be reduced to cash and returned to the Members on a fair and equitable basis. Excess assets shall be returned to each Member in an amount equal to the Member's total initial payment divided by the total initial payments made by all who are Members of the Facility who were Members on the date immediately preceding the effective date of dissolution multiplied by the excess assets as determined pursuant to this Article.

If the Facility is determined to have insufficient funds to meet its obligations, then it shall assess Members (and, where authorized, terminated and withdrawn Members) to the extent allowed pursuant to Section 5.3.

ARTICLE VIII Board of Directors

Section 8.1. Powers and Selection. The powers granted to the Facility by this Agreement or otherwise shall be vested in and exercised by a Board of Directors. The board of Directors shall consist of one representative from each Member designated pursuant to and in accordance with the policies of the respective Member. A Director shall serve until a successor is designated by the Member.

Section 8.2. Terms of Directors. A Director shall serve at the pleasure of the Member the Director represents.

Section 8.3. Bylaws. The Board of Directors shall adopt bylaws to govern the conduct of the Board of Directors and the operation of the Facility. The Bylaws may include provisions for the indemnification by the Facility of directors, officers, Members, and others to the extent allowed by law, and may provide for the purchase of insurance in addition to or instead of indemnification. The Bylaws may provide for the election by the Board of such officers of the Facility as are deemed necessary and appropriate.

Section 8.4. Committees. The Board of Directors shall establish such committees of Directors as it deems necessary

and appropriate to perform its duties. The Board of Directors may delegate authority to such committees.

ARTICLE IX GENERAL POWERS OF THE BOARD OF DIRECTORS

Section 9.1. Generally. In addition to the powers granted to the Board of Directors elsewhere in this Agreement or by law, the Board of Directors shall have the powers set forth in this article.

Section 9.2. Powers. The Board of Directors shall have the power to:

- (a) Make and enter into contracts;
- (b) Incur debts, liabilities and obligations not otherwise prohibited by law;
- (c) Acquire, hold, dispose of, encumber or lease real or personal property or securities;
- (d) Invest funds of the Facility;
- (e) Sue or be sued in its own name, and take all measures necessary or desirable in the prosecution or defense of claims;
- (f) Establish risk management, loss avoidance and loss control procedures and advise and educate Members in loss control and risk reduction;
- (g) Purchase insurance related to the operation of the Facility for its Members and others;
- (h) Employ and oversee employees and agents and contract for services;
- (i) Employ claims adjustment services, legal counsel, accountants, actuarial and provide for such other services as the Board of Directors shall deem necessary;
- (j) Contract for excess insurance and reinsurance as the Board of Directors finds necessary and proper;
- (k) Determine and establish general policies, procedures, rules and regulations for operation of the Facility;
- (l) Delegate such authority and responsibility to others, whether or not employed by the Facility, as the Board of Directors deems necessary or advisable and which is not otherwise prohibited by law.

Section 9.3. Exercise of Powers. The powers granted to the Board pursuant to this Article shall be exercised on behalf of the Facility and its Members and in furtherance of the purposes of this Agreement.

ARTICLE X FISCAL OPERATIONS

Section 10.1. Banking. The Board may operate such bank accounts or other depository arrangements as it shall deem necessary and authorize a person as signatory on

accounts.

Section 10.2. Annual Audit. An annual audit shall be made of the Facility by certified public accounts designated by the Casualty Actuarial Society. The audited statement shall be presented on the basis of generally accepted accounting principles and shall be accompanied by an actuarial certification as the adequacy or inadequacy of the reserves of the Facility. The annual audit shall be transmitted to each Member.

ARTICLE XI CLAIMS ADJUSTMENT POLICIES

Section 11.1. In General. In addition to other policies and procedures, the Facility shall establish policies and procedures for reporting, adjusting, settlement and litigation of claims against Members. The policies and procedures shall be consistent with and conform to the provisions of the Article.

Section 11.2. Settlement of Claims. A Member against whom a claim has been made shall have the right to approve any settlement of that claim.

If a Member refuses to approve the settlement of a claim against that Member, then the Member shall be liable for the excess of the amount ultimately awarded to the claimant including loss adjustment expenses of the Facility on and after the date the Member rejected the proposed settlement over the proposed settlement amount. No amount in excess of the proposed settlement shall be included in calculating whether any retention or deductible applicable to the Member has been exhausted.

Section 11.3. Defense of Claims. For any claim against a Member, whether or not the Facility may be liable to the Member for all or a portion of the claim, the Member shall be entitled to defend the claim with legal counsel employed in-house or as general counsel by the Member. Prior to electing to defend through in-house counsel, the Member shall consult with the Facility. None of the costs of defense through in-house counsel shall be included in calculating the liability of the Facility to the Member, if any, nor in calculating whether any retention or deductible applicable to the Member has been exhausted.

For any claim against a Member, whether or not the Facility may be liable to the Member for all or a portion of the claim, the Member shall be entitled to select counsel of its choice from a list of counsel approved by the Facility.

Upon the commencement of operation of the Facility, the Board shall establish a committee to develop a list of counsel acceptable for the defense of claims against Members for which the Facility may be liable. At least one half of

the member of the committee shall be in-house legal counsel or general counsel for Members of the Facility. The list developed by the Committee shall be submitted to and approved or disapproved, in whole or in part, by the Board within 120 days after the commencement of operation of the Facility. The board's approval shall not be withheld unreasonably. The Board may, from time to time, amend the list of approved counsel by addition or deletion, or select special counsel, after consultation with the committee.

ARTICLE XII EFFECT OF AGREEMENT

Section 12.1. The obligations and responsibilities of the Members set forth in this Agreement include the obligation to take no action inconsistent with this Agreement as originally executed or validly amended. This Agreement represents the entire agreement of the parties, may be executed in counterpart and/or duplicate originals, and shall be a valid and binding obligation of the Member. Except to the extent of the financial payments to the Facility agreed to herein, or such additional obligations as may come about through amendment hereto, no Member agrees to contracts herein to be held responsible for any claims in tort, contract, or otherwise made against any other Member or against the Facility. The contracting parties intend to create a Michigan Higher Education Group Self-Insurance and Risk-Management Facility for joint risk management only within the scope of this Agreement and nothing herein contained shall be deemed to create any relationship of surety, indemnification or responsibility between Members for debts or claims against any other Member or such Member's employees, to create any third-party beneficiary relationship, nor to create any debt or obligation of the State of Michigan.

ARTICLE XIII AMENDMENTS

Section 13.1. Amendments to this Agreement may be made only in writing signed by all Members of the Facility.

ARTICLE XIV EFFECTIVE DATE

Section 14.1. This Agreement shall be effective as to a Member when the Governing Board of that Member has authorized membership in and made its initial payment to the Facility.

**ARTICLE XV
MISCELLANEOUS**

Section 15.1. Governing Law. This Agreement is made and entered in the State of Michigan and shall be governed by the laws of the State of Michigan.

Section 15.2. Entire Agreement. This written Agreement consisting of fifteen Articles shall comprise the entire agreement and understandings of the signatories.

Section 15.3. Notices. All notices required or permitted by this Agreement shall be sent to the President of each Member.

IN WITNESS WHEREOF, the undersigned have set their hands to this Participation Agreement this twenty-fifth day of June, 1987.

THE BOARD OF TRUSTEES OF
CENTRAL MICHIGAN UNIVERSITY

By: _____

Its: _____

THE BOARD OF REGENTS OF
EASTERN MICHIGAN UNIVERSITY

By: _____

Its: _____

THE BOARD OF CONTROL OF
FERRIS STATE COLLEGE

By: _____

Its: _____

THE BOARD OF CONTROL OF
GRAND VALLEY STATE COLLEGE

By: _____

Its: _____

THE BOARD OF TRUSTEES OF
MICHIGAN STATE UNIVERSITY

By: _____

Its: _____

THE BOARD OF CONTROL OF
MICHIGAN TECHNOLOGICAL UNIV.

By: _____

Its: _____

THE BOARD OF CONTROL OF
NORTHERN MICHIGAN UNIVERSITY

By: _____

Its: _____

THE BOARD OF TRUSTEES
OAKLAND UNIVERSITY

By: _____

Its: _____

THE BOARD OF GOVERNORS OF
WAYNE STATE UNIVERSITY

By: _____

Its: _____

THE BOARD OF TRUSTEES OF
WESTERN MICHIGAN UNIVERSITY

By: _____

Its: _____

APPENDIX C
ARTICLES OF INCORPORATION

ARTICLES OF INCORPORATION
OF
MICHIGAN HIGHER EDUCATION GROUP
SELF-INSURANCE AND RISK-MANAGEMENT FACILITY
(A Michigan Nonprofit Corporation)

These Articles of Incorporation are signed by the incorporator for the purpose of forming a nonprofit corporation pursuant to the provisions of Act 162, Public Acts of 1982 (the "Act"), as follows:

ARTICLE I

The name of the corporation is Michigan Higher Education Group Self-Insurance and Risk-Management Facility.

ARTICLE II

1. The purposes for which the Corporation is organized are as follows:

a. Provide for the pooling of certain risks solely for the benefit of its Members, all of which Members shall be universities or colleges existing pursuant to the Michigan Constitution of 1963 whose income is exempt from federal income taxation pursuant to Section 115 of the Internal Revenue Code of 1986, as amended, or corresponding provisions of future internal revenue law (the "Code"); provide coverage for certain risks for its Members; undertake risk management and loss control services and programs for its Members; provide indemnity to Members against loss commonly covered by insurance; adjust claims against Members; and provide for legal defense in connection with certain losses or potential losses.

b. Conduct any and all such activities, exercise any and all such powers and receive and administer assets as allowable under the Act, consistent with these Articles, and as necessary and proper in order to efficiently achieve the foregoing.

2. No part of the net earnings of the Corporation shall inure to the benefit of any officer or director of the Corporation, or to any private individual, provided however, that, for purposes of this Article II, Section 2, no Member whose income is exempt from federal income taxation pursuant to either Code Section 115 or Code Section 501(C)(3) shall be considered a private individual.

ARTICLE III

1. The Corporation is organized upon a membership basis.

2. The Corporation has only one class of membership, which, subject to the provisions of a certain Participation Agreement executed by each of the Members of the Corporation (the "Participation Agreement"), has full voting rights and powers and all other rights and powers, and no qualifications, limitations or restrictions.

ARTICLE IV

The Corporation shall conduct its affairs as provided by the Participation Agreement according to its terms as they may provide from time to time.

ARTICLE V

1. The assets which the Corporation possesses are:

Real Property - None

Personal Property - None

2. The Corporation is to be financed by gifts, grants, contributions and fees and revenues from the provision of charitable or educational services, or services which would lessen the burdens of government.

ARTICLE VI

1. The address and the mailing address of the initial registered office is:

One Michigan Avenue
Suite 900
Lansing, MI 48933

2. The name of the initial resident agent at the registered office is:

Legal Consultant

ARTICLE VII

The name and address of the incorporator is as follows:

<u>Name</u>	<u>Business Address</u>
Legal Consultant	One Michigan Avenue Suite 900 Lansing, MI 48933

ARTICLE VIII

The term of the Corporation's existence is perpetual.

ARTICLE IX

Any action required or permitted by the Act to be taken at an annual or special meeting of Members may be taken without a meeting, without prior notice, without a vote, if a consent in writing, setting forth the action so taken, is signed by Members having not less than a minimum number of votes that would be necessary to authorize or take the action at a meeting at which all Members entitled to vote thereon were present and voted. Prompt notice of the taking of the corporation action without a meeting by less than unanimous written consent shall be given to Members who have not consented in writing.

ARTICLE X

In the event of the dissolution of the Corporation, all of the Corporation's assets, real and personal, shall be distributed in accordance with the Participation Agreement; provided that if, at the time of the Corporation's dissolution, any Member which would, pursuant to the Participation Agreement, receive assets on dissolution has ceased to be exempt from federal income tax under either Code Section 501(c)(3) or Code Section 115, or it is impossible or impractical to distribute assets to any such Member, then the Corporation's assets shall be distributed in accordance with the Participation Agreement to Members whose income is exempt from federal income tax pursuant to either Code Section 501(c)(3) or Code Section 115. Any such assets not so disposed of, for whatever reason, shall be disposed of by the order of the Circuit Court for the County of Ingham to the State of Michigan to be used exclusively for public purposes.

ARTICLE XI

In the event that the Corporation is exempt pursuant to code Section 501(c)(3), then:

a. The Corporation shall operate and act exclusively for charitable and educational purposes and to lessen the financial burdens of government.

b. Notwithstanding any other provision of these articles, the Corporation shall not carry on any activity not permitted to be carried on (i) by an organization which is described in Section 501(c)(3) of the Code and is exempt from federal income tax under Section 501(a) of the Code, or (ii) by an organization contributions to which are deductible under Section 170(c)(2).

c. No substantial part of the activities of the Corporation shall be to carry on propaganda or otherwise attempt to influence legislation.

d. The Corporation shall not participate or intervene in (including the publishing or distribution of statement) any political campaign on behalf of any candidate for public office.

e. No substantial part of the activities of the Corporation shall consist of providing insurance as prohibited by Code Section 501(m).

f. No part of the net earnings of the Corporation shall be distributed to, or inure to the benefit of, any director or officer of the Corporation or any private individual as prohibited by Code Section 501(c)(3).

ARTICLE XII

In the event the Corporation is determined to be a "private foundation," as that term is defined in Code Section 509(a), then for the purpose of complying with the requirements of Code Section 508(e), for all taxable years commencing on or after the date on which these articles were filed, the Corporation shall:

a. Distribute its income and such part of its capital as may be required by laws for each taxable year at such time and in such manner as not to become subject to the tax on undistributed income imposed by Code Section 4942;

b. Not engage in any action of self-dealing as defined in Code Section 4941;

c. Not retain any excess business holdings as defined in Code Section 4943;

d. Not make any investments in such manner as to subject it to tax under Code Section 4944; and

e. Not make any taxable expenditures as defined in Code Section 4945.

IN WITNESS WHEREOF, the undersigned, the incorporator of the above-named Corporation, has hereunder signed the Articles of Incorporation on the 23rd day of May.

Legal Consultants

APPENDIX D

BYLAWS

BYLAWS
OF
MICHIGAN HIGHER EDUCATION GROUP
SELF-INSURANCE AND RISK MANAGEMENT FACILITY

(A Michigan Nonprofit Corporation)

ARTICLE I

OFFICES

Section 1.1. Principal Office. The principal office and registered office of Michigan Higher Education Group Self-Insurance and Risk Management Facility (the "Corporation") shall be located at _____, or such other place as the Board of Directors shall from time to time determine.

Section 1.2. Other Offices. The Corporation may have offices at such other places as the Board of Directors may from time to time determine.

ARTICLE II

PURPOSE

Section 2.1. General. The purposes of the Corporation are as set forth in Article II of the Articles of Incorporation of the Corporation and in a certain Participation Agreement executed by each of the Members of this Corporation ("the Agreement"), according to its original terms or according to its terms as it may subsequently be amended. The Corporation shall act at all times in accordance with the Agreement. A copy of the Agreement is attached to the original copy of these Bylaws as Exhibit A.

ARTICLE III

MEMBERS

Section 3.1. Eligibility, Termination, Termination Rights and Obligations. The terms and conditions concerning eligibility, withdrawal, termination, withdrawal and termination rights and obligations of Members shall be governed by the Agreement.

Section 3.2. Action by Members.

(a) Each Member shall act through its respective Director which Director shall be appointed and serve as provided in the Agreement.

(b) An annual meeting of the Members for election of Directors and for such other business as may come before the meeting shall be held on _____ of each year beginning in 1987, unless such action is taken by written consent as provided in the Corporation's Articles of Incorporation. Written notice of such meeting shall be given, either personally or by mail, to each Member not less than ten (10) nor more than sixty (60) days before the date of the meeting.

(c) A majority of Members shall constitute a quorum at the meeting.

(d) Except as provided in the Agreement or the Michigan Nonprofit Corporation Act (the "Act"), each Member is entitled to one vote in each matter submitted to a vote.

ARTICLE IV

BOARD OF DIRECTORS

Section 4.1. Powers and Selection. The powers granted to the Corporation by the Agreement or otherwise shall be vested in and exercised by a Board of Directors.

Section 4.2. Terms and Conditions Governed by Agreement. The terms and conditions concerning the selection, powers, terms, replacement and committees of the Board shall be governed by the Agreement.

Section 4.3. Meetings.

(a) The Board of Directors may set the time and place for regular meetings of the Board. The Board of Directors shall meet at least once per year.

(b) The date of the annual meeting of the Board of Directors of the Corporation shall be set by the Board of Directors.

(c) Special meetings of the Board of Directors may be called by the Secretary of the Corporation upon the request of the President or one (1) of the Directors.

(d) Meetings of the Board of Directors may be held at any place or places.

Section 4.4. Notice of Meetings. Written notice shall be given to the Directors at least ten (10) but not more than (60) days prior to an annual meeting of the Board of

Directors. No notice is required for a regular meeting of the Board of Directors. Special meetings of the Board of Directors shall be held pursuant to notice of the time, place and purpose thereof either delivered personally or sent by telephone, telegraph or mail to each Director not less than twenty-four (24) hours prior to the meeting and if by telephone or telegraph, confirmed in writing before or after the meeting. Notwithstanding the foregoing, no notice need be given to any person who submits a signed waiver of notice before or after a meeting, or who attends a meeting without protesting any lack of notice.

Section 4.5. Resignation. A Director may resign by giving written notice to the Secretary of the Corporation and his or her respective Member which notice shall be immediately forwarded to the Board of Directors. Unless otherwise specified in the resignation, the resignation shall take effect upon receipt by both the Secretary and the Director's respective member, and the acceptance of the resignation shall not be necessary to make it effective.

Section 4.6. Quorum. The presence of a majority of the total number of Directors then in office shall constitute a quorum for the transaction of business.

Section 4.7. Voting. The vote of a majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors unless a greater vote is required by law, by the Articles of Incorporation, the Agreement or by these Bylaws. Each Director present shall have one vote.

Section 4.8. Compensation of Directors. The Directors, as such, shall not be compensated for the performance of services for the Corporation, but may, by resolution of the Board of Directors, be reimbursed for expenses incurred on behalf of the Corporation.

ARTICLE V

OFFICERS

Section 5.1. Officers. The officers of the Corporation shall be a President, a Vice President, a Secretary and a Treasurer. The Officers shall be elected by the Board of Directors at its first meeting and at each annual meeting of the Board of Directors thereafter. Officers shall be elected from among the members of the Board of Directors. The Board of Directors of the Corporation may from time to time elect or appoint other officers including additional Vice-Presidents, Assistant Treasurers and Assistant Secretaries, as the Board may deem advisable, and such officers shall have such authority, and shall perform

such duties as from time to time may be prescribed by the Board of Directors. Any two or more offices may be held by the same person. In addition to the powers and duties of the officers of the Corporation as set forth in these Bylaws, the Officers shall have such authority and shall perform such duties as from time to time may be determined by the Board of Directors.

Section 5.2. President. The President shall be the chief operating officer of the Corporation. He or she shall preside at all meetings of the Board of Directors. The President shall perform such other duties and functions as shall be assigned to him or her from time to time by the Board of Directors. He or she shall be, ex officio, a member of all standing committees. The President shall, unless otherwise provided by resolution of the Board of Directors, possess the power and authority to sign all certificates, contracts, instruments, papers and documents of every conceivable kind and character whatsoever in the name of and on behalf of the Corporation.

Section 5.3. Vice-President. One Vice-President shall perform the duties and exercise the powers of the President during the absence or unavailability of the President, and shall have such additional powers and perform such additional duties as shall from time to time be assigned by these Bylaws or by the Board of Directors.

Section 5.4. Secretary. The Secretary shall keep the minutes of all meetings of the Board of Directors in books provided for that purpose and sign, with the President of the Board of Directors, in the name of the Corporation, all contracts when authorized to do so. The Secretary shall have charge of such books and papers as the Board of Directors shall direct, all of which shall at all reasonable times be open to the examination of any Director, and in general perform all the duties incident to the office of Secretary, subject to the control of the Board of Directors.

Section 5.5. Treasurer. The Treasurer shall have custody of all the funds and securities of the Corporation, endorse checks, notes and other obligations for collection on behalf of the Corporation and shall deposit the same to the credit of the Corporation in such bank or banks or depository or depositories as the Board of Directors may designate; sign all receipts and vouchers for payments made to the Corporation; enter or cause to be entered regularly in the books of the Corporation kept for that purpose, full and accurate accounts of all moneys received and paid on account of the Corporation, and whenever required by the Board of Directors shall render statements of such accounts; shall, at all reasonable times, exhibit the books and accounts to any Director of the Corporation, and shall perform all acts incident to the position of Treasurer,

subject to the control of the Board of Directors.

Section 5.6. Assistant Secretary and Assistant Treasurer. The Board of Directors may from time to time by resolution delegate to any Assistant Treasurer or Treasurers any of the powers or duties herein assigned to the Treasurer; and may similarly delegate to any Assistant Secretary or Secretaries any of the powers or duties herein assigned to the Secretary.

Section 5.7. Giving of Bond by Officers. All officers of the Corporation, if required to do so by the Board of Directors, shall furnish bonds to the Corporation for the faithful performance of their duties, in such penalties and with such conditions and security as the Board shall require. The Corporation shall assume the cost of providing any bond requirement hereunder.

Section 5.8. Compensation of Officers. No officer of the Corporation shall be compensated for the performance of services for the Corporation, but may, by resolution of the Board of Directors, be reimbursed for expenses incurred on behalf of the Corporation.

ARTICLE VI

COMMITTEES

Section 6.1. General. The Board of Directors may designate standing committees with such duties and powers as it may provide pursuant to the Agreement in order to carry out the programs and purposes of the Corporation; and the Board shall further designate the individuals to serve as chairpersons of said standing committees.

ARTICLE VII

DISSOLUTION

Section 7.1. In General. In the event of the dissolution of the Corporation, all of the Corporation's assets, real and personal, shall be distributed in accordance with the Agreement; provided that if, at the time of the Corporation's dissolution, any Member which would, pursuant to the Agreement, receive assets on dissolution has ceased to be exempt from Federal income tax under either Section 501(3)(c) of the Internal Revenue Code of 1986, as amended, or subsequent corresponding provisions of Federal income tax law (the "Code") or Section 115 of the Code, or it is impossible or impractical to distribute assets to any such Member, then the Corporation's assets shall be distributed in accordance with the Agreement to Members

whose income is exempt from Federal income tax pursuant to either Code Section 501(c)(3) or Code Section 115. Any such assets not disposed of, for whatever reason, shall be disposed of by the order of the Circuit Court for the County of Ingham to the State of Michigan to be used exclusively for public purposes.

ARTICLE VIII

INDEMNIFICATION OF DIRECTORS, OFFICERS AND EMPLOYEES

Section 8.1. Actions in the Best Interest of the Corporation. The Corporation shall have power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he or she is or was a director, officer, employee or agent of the Corporation or is or was serving at the request of the Corporation as a trustee, director, officer, employee or agent of another corporation, business corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not of itself create a presumption that the person did not act in good faith and in a manner which he or she reasonably believed to be or not opposed to the best interests of the Corporation and, with respect to any criminal action or proceeding, had reasonable cause to believe that the conduct was unlawful.

Section 8.2. Actions by or in Right of the Corporation. The Corporation shall have power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he or she is or was a director, officer, employee or agent of the Corporation or is or was serving at the request of the Corporation as a trustee, director, officer, employee, or agent of another corporation, business corporation, partnership, joint venture, trust, or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection with the

defense or settlement of such action or suit if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of a duty to the Corporation unless and only to the extent that the Court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, he or she is fairly and reasonably entitled to indemnification for such expenses which the Court shall deem proper.

Section 8.3. Expenses. To the extent that a director, officer, employee or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections 1 and 2 of the Article of in defense of any claim, issue or matter therein, he or she shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection therewith.

Section 8.4. Determination of Indemnification. Any indemnification under Sections 1 and 2 of this Article (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he or she has met the applicable standard of conduct set forth in Sections 8.1 and 8.2. Such determination shall be made (i) by the Board of Directors by a majority vote of a quorum (as defined in Section 4.6 of these Bylaws) consisting of directors who were not parties to such action, suite or proceeding, or (ii) if such quorum is not obtainable, or even if obtainable, a quorum of disinterested directors so directs, by independent legal counsel in a written opinion. Notwithstanding the failure or refusal of the directors of the Corporation or counsel to make provision therefor, such indemnification shall be made if a court of competent jurisdiction made a determination that the director, officer, employee or agent has a right to indemnification hereunder in any specific case upon the application of such director, officer, employee or agent.

Section 8.5. Repayment of Expenses. Expenses incurred in defending a civil or criminal action, suit or proceeding described in Section 1 or 2 of this Article may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors in the specific case upon receipt of an undertaking by or on behalf of the Director, Officer, employee or agent to repay such amount unless it shall ultimately be determined that he or she is entitled to be

indemnified by the Corporation.

Section 8.6. Insurance. The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the Corporation or is or was serving at the request of the corporation as a trustee, director, officer, employee, or agent of another corporation, business corporation, partnership, joint venture, trust, or other enterprise, against any liability assessed against him or her or the Corporation and incurred by him or her or the Corporation in any such capacity, or arising out of his or her status as such, whether or not the Corporation would have the power to indemnify him or her against such liability under the provisions of this Article.

ARTICLE IX

ANNUAL AUDITS AND FISCAL YEAR

Section 9.1. In General. Annual audits and the determination of the Corporation's fiscal year shall be conducted as provided in the Agreement.

ARTICLE X

TRANSFER AND WITHDRAWAL OF MEMBERSHIP

Section 10.1. Withdrawal and Termination. The terms and conditions of withdrawal of Members and termination of Members shall be governed by the Agreement.

ARTICLE XI

MISCELLANEOUS PROVISIONS

Section 11.1. Voting Securities. Unless otherwise directed by the Board of Directors, the Chairman of the Board or President, or in the case of their absence or inability to act, the Vice Presidents, in order of their seniority, shall have full power and authority on behalf of the Corporation to attend and to act and to vote, or to execute in the name or on behalf of the Corporation a consent in writing in lieu of a meeting of Members or a proxy authorizing an agent or attorney-in-fact for the Corporation to attend and vote at any meetings of security holders of corporations in which the Corporation may hold securities, and at such meetings he or his duly authorized agent or attorney-in-fact shall possess and may exercise any and all rights and powers incident to the ownership of such securities and which, as the owner thereof, the Corporation

might have possessed and exercised if present. The Board of Directors by resolution from time to time may confer like power upon any other person or persons.

Section 11.2. Contracts, Conveyances, etc. All conveyances, contracts and instruments of transfer and assignment shall be approved and executed as provided by a resolution of the Board of Directors.

Section 11.3. Execution of Instruments. All Corporation instruments and documents including, but not limited to, checks, drafts, bills of exchange, acceptances, notes or other obligations or orders for the payment of money shall be executed or provided by a resolution of the Board of Directors.

Section 11.4. Borrowing. Loans and renewals of any loans shall be contracted on behalf of the Corporation as provided by a resolution of the Board of Directors of the Corporation.

Section 11.5. Adjourned Meetings. A majority of the Directors present, whether or not a quorum, may adjourn any meeting to another time and place. Notice of such adjourned meeting shall be given even though the time and place thereof are announced at the meeting at which the adjournment is taken.

Section 11.6. Method of Giving Notices. Any notice required by statute or by these Bylaws to be given to the directors, or to any officers of the Corporation unless otherwise provided herein or in any statute, shall be given by mailing to such director or officer at his or her last address as the same appears on the records of the Corporation, and such notice shall be deemed to have been given at the time of such mailing.

Section 11.7. Action by Written Consent. Action required or permitted to be taken pursuant to authorized vote at any meeting of the Board of Directors or a committee thereof, may be taken without a meeting if, before or after the action, all members of the Board of Directors or the committee consent thereto in writing. Written consent shall be filed with the minutes of the proceedings of the Board or committee. Such consent shall have the same effect as the vote of the Board or committee for all purposes.

Section 11.8. Participation in Meeting by Telephone. By oral or written permission of a majority of the Board of Directors, a member of the Board of Directors or of a committee designated by the Board may participate in a meeting by means of conference telephone or similar

communications equipment by means of which all persons participating in the meeting can hear each other. Participation in a meeting pursuant to this Section 11.8 constitutes presence in person at the meeting.

Section 11.9. Corporate Seal. If the Corporation has a corporate seal, it shall have inscribed thereon the name of the Corporation and the words "Corporate Seal" and "Michigan." The seal may be used by causing it or a facsimile to be affixed, impressed or reproduced in any other matter.

ARTICLE XII

AMENDMENTS AND ADDITIONS

Section 12.1. Amendments. These Bylaws may be altered or amended at any duly called meeting of the Directors, at which a quorum is present by a majority vote, provided that written notice naming the substance of the proposed amendment has been sent to each director of the Corporation at least ten (10) days in advance of the date of meeting, unless such notice is waived by all the directors. Notwithstanding any other provision of these bylaws to the contrary, this Article and Article XIII may only be amended by an unanimous vote of the Members.

Section 12.2. Rules and Regulations. The Board of Directors may adopt additional rules and regulations, general or specific, for the conduct of their meetings, and additional rules and regulations, general or specific, for the conduct of the affairs of the regulation shall be inconsistent with or in contravention of any provision of the Articles of Incorporation, the Agreement or these Bylaws.

APPENDIX E

LIST OF INTERVIEWEES AND TOPICS OF DISCUSSION

LIST OF INTERVIEWEES AND TOPICS OF DISCUSSION

1. Brooks, Mary: October 15, 1987.
 - A. Clarification of method for selection of legal consultants.
 - B. Rationale of assignment of individuals to the Implementation Task Force.
2. Shaw, Lyle: December 3, 1987.
 - A. Clarification on board approval to participate in pool (Northern Michigan University).
3. Stevens, Glenn: December 22, 1987.
 - A. Clarification of legislative process involving (H.B. 4407)
4. Ward, Jerre: September 22, 1987.
 - A. Clarification of method for determining choice of actuarial consultants.