



Guide for Managers and Mentors

Week 2

Government Regulation and Insurance Policy Fundamentals

Week 2: Government Regulation of the Industry and Insurance Policy Fundamentals

This unit provides an overview of how the insurance industry is regulated and introduces essential insurance policy fundamentals. Beginning next week with Commercial Property, participants will be working extensively with ISO forms. Over the course of the Insurance Professional School, participants will be learning insurance contracts, analyzing them for coverage and gaps and matching coverage to the needs of a client or prospect. This unit lays the foundation for that.

Learning Objectives:

After completing this unit, participants will:

- Understand how states regulate the insurance industry and where federal legislation applies
- Know the difference between admitted and non-admitted markets and how they are regulated
- Understand the ways in which insurance policies can be structured and how that impacts analysis and interpretation of a policy.
- Know the six types of policy provisions and their effect on coverage
- Recognize how to approach policy analysis from a pre-loss and post-loss perspective

Topics Covered

Government Regulation of the Industry
Structure of Insurance Policies
Policy Provisions
Policy Analysis

For each of the topics above, participants:

- Read the applicable modules from The Institutes to learn the fundamental concepts
- Viewed videos from UGA faculty that further explain the concepts and provide examples
- Took quizzes to assess their understanding of the concepts
- Completed a case study assignment with their Study Group team

Government Regulation and Insurance Policy Fundamentals Unit Summary

Week 2 began with an overview of how the insurance industry is regulated. Participants were then introduced to essential insurance policy fundamentals including how policies are structured, common policy provisions and contract analysis.

Risk Management Fundamentals (Week 1) and Insurance Policy Fundamentals (Week 2) of the Insurance Professional School lay the foundation for the deep dive into specific commercial coverages in the coming weeks.

Beginning next week with Commercial Property, participants will be working extensively with ISO forms. An understanding of coverage concepts and insurance contracts along with application and practice in analyzing policy forms, will help them develop the skills needed to analyze any type of insurance contract.

Identifying and analyzing exposures are the basis for any insurance solution. This week, the Study Groups worked with the Bulldog Mechanical case study to identify exposures and analyze them for potential frequency and severity. They considered what risk management techniques, other than insurance, might be used to address these exposures. Based on what they learned about how policies are structured, the groups also contemplated the types of policies which would best suit Bulldog Mechanical's insurance needs.

Reflection/Action Plan

At the end of each unit, participants are asked to reflect on what they have learned and develop an action plan to apply and reinforce the learnings. This Reflection/Action Plan can be a useful tool for managers and mentors to use as a discussion guide with participants.

Below are some suggestions and tips to assist you in a discussion with your participant(s). The participants have been instructed to proactively think about ways they can use the content in their day-to-day activities and be prepared to discuss them with their manager.

Reflection/Action Plan Questions (completed by participant)	Manager/Mentor Tips/Suggestions
What are your key takeaways from what you learned in this unit?	<ul style="list-style-type: none"> • Discuss content and takeaways. • What are the most common forms used in your firm?
What follow-up questions do you have? What topics or concepts would you like to learn more about or research further?	<ul style="list-style-type: none"> • Answer follow-up questions and/or direct employee to appropriate SMEs. • Discuss what they should learn more about, especially areas specific to the way things are done within the firm.
From where or with whom will you engage to continue learning about the topic and find answers to your questions?	<ul style="list-style-type: none"> • Recommend individuals within the firm and resources that are available to them. • Are there other internal training resources or systems they should be aware of?
Who are your key resources on this topic (within your firm and your external network)?	<ul style="list-style-type: none"> • Encourage the participant to think of additional resources they can go to. This could include specific account teams, carrier partners or other individuals in their network.
What are your next steps? How do you plan to use what you learned in your day-to-day work? What specific accounts or prospects come to mind?	<ul style="list-style-type: none"> • Review next steps. • Ensure the next steps are specific and time bound. • Follow-up to foster accountability. • Example activities: <ul style="list-style-type: none"> ○ Allow participant to review some of the common policy forms used in the agency and/or those they will be working with. Have them determine what type of policy it is (package, monoline, standard, manuscript) and identify the policy provisions.



Bulldog Mechanical Group Case Study

Bulldog Mechanical Group, LLC

CIAB Insurance Professional School

Introduction

Bulldog Mechanical Group, LLC (BMG) is a mechanical contractor specializing in the design, fabrication, and installation of heating, ventilation, and air conditioning (HVAC) systems in commercial and multi-unit facilities. The company was founded on January 1, 2003 by friends John Beland and Rod Butler. BMG operates under SIC Code 1711.

Like many companies, BMG started small but grew quickly. In the first five years, BMG worked on an average of eight to ten large projects annually, all of which were in metro Atlanta. By 2011, BMG had more than doubled in size, and the company began to bid for projects in northeastern Florida. To better accommodate the growth, in 2012, BMG opened an office in Daytona Beach, Florida, and then in 2015, the company opened a facility in Columbus, Ohio. In 2019, BMG posted overall revenue of over \$26 million.

Company Overview

John and Rod each brought unique and valuable experience to BMG. John graduated with a business degree from the University of Georgia and worked 15 years in corporate finance before becoming the Chairman and Chief Executive Officer (CEO) of BMG. John is a brilliant businessman and the company's forward-thinker. He creates, communicates, and implements the company's vision, mission, and organizational direction. Given his background, he also oversees the company's finance function. Rod brings hands-on experience in commercial HVAC design and fabrication and serves as the company's President and Chief Operating Officer (COO). Rod is extremely well-connected and well-respected in the commercial construction industry.

John and Rod each own 25.25% of BMG, and 49.5% is owned by a group of five other private investors (those five investors each own 9.9%). The success of BMG is largely based on the complementary roles of both men, but no business continuation plan is in place regarding a transfer of ownership should either John or Rod die or become disabled. John also can't ignore Rod's recent change in behavior. The two have been friends for over 25 years, but Rod has suddenly become more quiet and reserved. On several occasions in the past, Rod has shown interest in selling his share of the business to the private investors, but John has been able to talk him out of it each time. If Rod were to sell his share of the business, John would immediately become a minority owner and likely be pushed out of his role as Chairman and CEO. Even if he weren't pushed out, John relies heavily on Rod's experience, network, and expertise, and without him, it would be tough to keep the company in business. In addition to John and Rod, the executive team of the company consists of three other people: Judy Clemmons is the Chief Marketing Officer (CMO), Cody Pointer is the Chief Human Resources Officer (CHRO), and Sandra Verdine is the company's chief legal counsel. Each member of the executive team is provided a company car. John drives a 2019 Lexus CLA, Rod has a 2020 Ford F-250, Judy Clemmons has a 2019 Acura RDX, Cody Pointer has a 2018 Dodge Ram, and Sandra Verdine has a 2020 BMW X3. Each vehicle is leased to and insured by BMG.

BMG is organized into three divisions. The construction division, the largest division at BMG, is hired by large general contractor firms to install HVAC systems in brand-new multi-unit buildings. The second-largest division, the change-out division, specializes in retrofitting older HVAC systems in order to make them more efficient or bring them up to code. The smallest division – the repair division – is a 24/7 HVAC repair service that focuses exclusively on the maintenance and repair of minor problems in existing systems. Each division is led by a Division Vice President (DVP). Marvin Gonzalez is DVP of the construction division, Brent Laskin is DVP of the change-out division, and Renee Burris is DVP of the repair division.

BMG has four facilities, all located in the United States. The executive team, DVPs, and administrative functions – to include finance, marketing, HR, and legal – are all located in the company’s headquarters in Marietta, Georgia. In Fayetteville, Georgia, BMG owns a design, fabrication, and storage facility. In Daytona Beach, Florida, the company leases space that it uses as a sales and management office for local projects. Finally, in Columbus, Ohio, BMG owns a small office space, as well as a fabrication and repair shop. For licensing reasons, BMG only works on projects located in Georgia, Florida, and Ohio.

BMG contracts the electronic storage of all proprietary and confidential information to an Atlanta-based company called Data Security Experts (DSE). For BMG, proprietary and confidential information includes the personal identifying information of employees and subcontractors, to include names, addresses, social security numbers, bank account numbers, and bank routing numbers. The contract with DSE stipulates that BMG bears the responsibility for any security incident involving the disclosure of proprietary or confidential information. The contract states that BMG “holds DSE harmless” for “any and all” liability from the services provided. John and Rod have grown increasingly concerned about using DSE for electronic storage. Last year, a data breach of DSE servers led to the loss of personal identifying information (PII) for over 5,000 customers of a local insurance agency. As a direct result of the loss, at least 50 customers reported identity theft and credit card fraud, and the insurance agency was forced to close. John and Rod are very concerned that an incident involving BMG data would be disastrous and they are thinking about switching providers. However, the CEO of DSE is a fraternity brother of John, and as a result, BMG pays below-market rates for secure storage. Additionally, BMG is DSE’s largest client – if BMG were to switch providers, DSE would certainly go out of business.

Company Operations

The Construction Division

BMG acts as a contractor in the installation of HVAC systems in brand-new multi-unit buildings like apartment/condo complexes, hotels, and university dormitories. BMG responds to bid solicitation requests by general contractors overseeing the design and construction of such buildings. For most projects, BMG bids against three or four other mechanical contractors, but is proud to boast a winning percentage of nearly 90% - more than twice that of its nearest competitor. In celebration of each win, BMG throws a lavish party for the property owner general contractor that awarded the contract. The parties include open bars, live music, and five-star cuisine. John and Rod are growing concerned about these parties. On the one hand, they attribute much of BMG’s growth to the high number of commercial construction projects the company wins, and the private investors push for double-digit growth year-after-year. On the other hand, they are concerned about lawsuits related to issues of commercial bribery and personal injury. Eliminating the parties would almost certainly reduce the company’s winning percentage, and therefore affect the bottom-line.

After winning a bid, engineers and project managers from BMG re-visit the project site to finalize procurement orders for the equipment that will be needed for the installation of the HVAC system. All of the materials needed to complete a project – except the heat pumps and air handlers – are purchased from a vendor in Valdosta, Georgia named A.G. Simmons. The pick-up and delivery of equipment from A.G. Simmons to project sites is 100% contracted work. BMG has several different trucking companies that it contracts with at any given time. It has had trouble with various trucking companies in the past, which sometimes resulted in arguments over who was liable for incurred losses.

BMG buys all of its heat pumps and air handlers directly from a company called Joytex, which happens to have its manufacturing facility just outside Mexico City, Mexico. Joytex is an industry leader in the design, engineering, and manufacturing of heat pumps and air handlers, and BMG has used them exclusively since 2000. There had never been any issues with Joytex until about eight months ago when BMG complained that units had been delivered late to a large commercial development project. Because the units were delayed by over three weeks, BMG wasn't able to finish its work on time. As is the case in construction, BMG's inability to finish on-time delayed all of the other trades that were scheduled to work after the HVAC system had been installed. The general contractor was extremely upset with BMG and filed a \$2 million lawsuit for compensatory damages related to project delays. In response, BMG is weighing the possibility of filing a lawsuit against Joytex for its failure to deliver the units on time.

While equipment is on its way to a project site, BMG turns its attention to staffing. BMG does not retain enough full-time employees for all of its projects, and instead hires subcontractors on a project-by-project basis. The process to hire subcontractors looks a lot like the process that the general contractor used to hire BMG. BMG solicits for bids to the local community, and a number of small firms respond. The project is subsequently awarded to the firm that has the manpower and expertise required to complete the project, as well as bids the lowest amount. While BMG provides all of the HVAC materials needed to complete the project, subcontractors are expected to have general supplies like ladders, tools, and safety equipment.

BMG has traditionally discouraged subcontractors from carrying their own general liability and workers' compensation insurance policies. Typically, BMG will deduct a percentage of a subcontractor's bid amount in exchange for providing that subcontractor with general liability and workers' compensation insurance. In doing so, BMG assumes that each subcontractor appropriately verified the immigration status of its own employees upon hire. If a subcontracted employee with legal status in the United States were to be injured on a BMG project, the general liability and workers' compensation insurance provided by BMG would cover that employee. If, however, a subcontracted employee not legally authorized to work in the United States were to be injured on a BMG project, the general liability and workers' compensation insurance provided by BMG would not cover that employee, although state workers' compensation laws would still obligate the subcontractor and BMG to provide statutory benefits. In such cases, BMG pays out-of-pocket to cover any and all medical expenses that employee would face. This practice has led to extremely high costs, but the company is hesitant to change the way in which it hires and treats subcontractors. In fact, subcontractors are already hiring fewer workers, and BMG has recently had difficulty finding enough qualified subcontractors to finish large projects. Any change to this practice will mean that BMG has to reduce the number of projects it works on each year.

In the course of completing an HVAC installation, it is fairly common for accidents to occur – both small and large. A few months ago, for example, while installing an HVAC system in a new apartment building,

a BMG contracted employee accidentally punctured a large hole in the sheetrock of a ground-floor unit. In a similar accident, two BMG contracted employees shattered a tiled floor when they accidentally dropped an air handler while moving it. In a particularly destructive accident, a heat pump on the roof of a commercial building exploded, causing significant damage to the roof and injuring several BMG employees (including the site foreman). In construction, the cost to repair damages that stem from these types of accidents is charged to the general contractor. The general contractor will then back-charge the culpable contractor, and typically, the contractor will then back-charge the culpable subcontractor. The contract between BMG and its subcontractors, however, states that BMG will never back-charge subcontractors for costs associated with accidents that cause damage to the finished work of another trade (in the sheetrock incident, for example, BMG paid the general contractor 100% of the cost required for sheet rockers to come back in and fix the wall). While this practice creates a significant amount of additional cost to BMG, the company is again hesitant to change because it doesn't want to lose subcontractors.

BMG has also noticed that the amount of fines administered by the Occupational Safety and Health Administration (OSHA) has increased steadily over the past couple of years. OSHA investigators generally inspect a construction site a couple of times while BMG subcontractors are working, and issue citations related to ladder safety, communication, equipment use, paperwork, wiring configurations, and personal protection (i.e., the use of reflective clothing, hard hats, glasses, and steel-toed boots). It is stipulated in the contract with each subcontractor that BMG be responsible for any and all OSHA fines. In 2018, BMG paid \$104,400 in OSHA fines, but in 2019, BMG paid \$131,400 in OSHA fines.

BMG is extremely concerned about the number of safety incidents involving subcontractors and the recent increase in OSHA fines. The company's chief legal counsel, Sandra Verdine, has been tasked to address these issues right away. At a recent meeting, she outlined two potential options:

1. The first option is to hire a team of Onsite Safety Managers (OSMs) that BMG will deploy full-time to each jobsite at which BMG subcontractors are working. The OSMs will provide safety training, establish best practices, conduct equipment inspections, and enforce rules and regulations. This option is expected to reduce the incurred amount of workers' compensation claims by 75% (use the "Three Year Average for Incurred Losses" from the Claims workbook in your analysis) and reduce the amount of OSHA fines to an average of only \$50,000 per year. This option, however, is costly. Each OSM would not only be a full-time employee with full benefits, but BMG would be required to pay for an OSM to stay near each jobsite for the entire duration of a project (this cost would include travel, accommodations, food, etc.). Sandra estimates this option to cost \$410,000 per year.
2. The second option is to hire a safety management firm that will design and implement a job safety program for each BMG project. Like the OSM team, the safety management firm will provide safety training, establish best practices, conduct equipment inspections, and enforce rules and regulations. This option is less expensive than the first but is only expected to reduce the incurred amount of workers' compensation claims by 45% (use the "Three Year Average for Incurred Losses" from the Claims workbook in your analysis) and reduce the amount of OSHA fines to an average of \$75,000 per year. Sandra estimates this option to cost \$240,000 per year.

The Change-Out Division

The change-out division works primarily with hotels, restaurants, and universities that are in the process of renovating old or historic buildings. As one might imagine, these types of buildings were not originally designed to accommodate modern HVAC systems. As a result, a problem arises: on one hand, owners need to create a comfortable indoor environment with variable heat and air conditioning; on the other, they want to preserve the original look-and-feel of the building. The change-out division specializes in designing and installing high-efficiency HVAC systems that fit naturally into the original architecture of the building. Often, this will require that BMG build an entire system completely customized for a particular space.

Customers generally contact BMG in the early stages of a renovation project. BMG project managers first inspect the building, take measurements, and create blueprints for the new system. After reviewing the blueprints with the customer, a contract is signed and the blueprints are sent to the BMG fabrication shop in Fayetteville. There, a team of engineers and craftsmen use the blueprints to build and assemble anything that requires customization, most often the ductwork and wiring configurations. Any standard components that don't require modification are drop-shipped to Fayetteville by A.G. Simmons.

After a system is completely assembled, tested, and "decorated" (the system is generally painted or otherwise disguised so that it will look more aesthetically pleasing once installed), it is disassembled and shipped to the project site. Once a system arrives at the project site, a team of workers will re-assemble and install it. Depending on the size of the project, the workers that re-assemble a system on a project site are usually subcontracted. The process to hire subcontractors for change-out projects is identical to the process used to hire subcontractors for new construction projects. Often, the team will discover that something was lost or damaged during shipment or that something doesn't fit as intended. In such cases, an emergency redesign takes place. For projects in Ohio, that redesign is completed at the Columbus fabrication shop, and for projects in Georgia or Florida, that redesign is completed at the Fayetteville location. Again, all pick-up and delivery is 100% contracted work. BMG has several different trucking companies that it contracts with at any given time. It has had trouble with various trucking companies in the past, which sometimes resulted in arguments over who was liable for incurred losses.

Overall, employees are very happy with the working conditions at BMG fabrication shops. However, an area of concern is that there has been an increase in general liability and workers' compensation losses in the past year, and it seems that many could have been avoided by the enforcement of basic policies and procedures. In one recent incident, an employee in the Fayetteville shop started a fire with a solder machine. Not wanting to call 911 and risk embarrassing himself, he thought he could quickly extinguish it himself. Unfortunately, the fire was stronger than he initially anticipated, and he suffered severe burns to his hands. He is expected to miss at least six months for recovery. In another instance, a full-time employee was stocking shelves from a forklift man basket and fell from about 25 feet up after failing to properly latch the cage gate. He was immediately knocked unconscious and suffered a large contusion to the top of his head. Even though he regained consciousness on the way to the hospital, he suffered a severe concussion and may have lingering head trauma. Doctors are worried about the long-term consequences of the injury and have advised the employee to refrain from working for at least six months as they monitor his progress with regular MRI appointments. Even though this particular employee was full-time, his absence hasn't had a significant impact on operations. In fact, management has expressed hope that he will not return, in part because they were unimpressed by his work ethic prior to the incident.

In a particularly terrible incident, a truck driver contracted to deliver a system to Columbus ran over a BMG employee as he was backing the truck into the loading dock. Unfortunately, the employee was severely injured and will likely be paralyzed below the waist. He will be out of work for at least two years and isn't expected to return. Witnesses report that there was no backup alarm on the truck, and that it appeared the driver wasn't very good at backing up. He reportedly had to try five times to successfully align the rear of the truck to the loading bay, a high number of attempts for what was usually an easy maneuver. While BMG is responsible to pay workers' compensation, management is weighing the possibility of filing a lawsuit against the trucking company for negligence in training and equipment maintenance.

The Repair Division

The repair division began after BMG expanded operations into Columbus, Ohio. The company realized that its infrastructure and fabrication equipment went largely unused on a daily basis, so it began to service the local community by performing routine maintenance and minor repairs on existing HVAC systems. After the endeavor proved to be successful in Columbus, BMG began to offer maintenance and repair services in Georgia as well. In both locations, service is limited to customers located within 120 miles of the BMG office. Each location also has two vehicles that it uses exclusively for repair jobs. The Columbus location has a 2008 Ford E-250 Cargo Van and a 2013 Chevy Silverado 2500 Utility Truck, and the Fayetteville location has a 2016 GMC Savana Cutaway Cargo Van and a 2018 Ford E-350 Cargo Van.

It has come to the attention of the corporate office that these trucks are being used for purposes other than responding to repair calls. In both Columbus and Fayetteville, employees have used the trucks to pick up children from school. Sometimes, one employee will use one of the cargo vans to pick up all of the other employees' children and bring them back to the office. The vehicles have a maximum of three seats, so when more than three children are picked up from school at the same time, some of them are required to ride in the back, without seatbelts (note that the vehicles are all enclosed). On such a trip last year in Columbus, after the van hit a pothole on the interstate, a hammer fell and struck a child who was riding in the back on the head. The injury required stitches, and BMG was forced to file a liability claim to cover the medical expenses. The company is worried that a more serious accident could occur and has considered banning this practice. However, many BMG employees are single parents, and they rely on these childcare services, even if they are a bit unorthodox.

Employment

BMG currently has 68 full-time employees and 34 part-time employees. None of the employees of the subcontractors that BMG hires to complete large projects are considered BMG employees. All full-time employees are salaried, but part-time employees are paid on an hourly basis. Bonuses have averaged about 5% annually for the past three years, but vary based on an employee's status, position, and time with the company.

The corporate HR department in Marietta is supposed to be responsible for the hiring and firing of BMG employees, regardless of division or location. Additionally, all candidates are supposed to undergo a background check and drug testing prior to being extended an offer. Oftentimes, however, employees are hired and fired by local managers at each location, and HR is notified after the fact. Especially in Fayetteville and Columbus, managers don't understand why someone at corporate has to give the go-ahead for someone he or she probably won't ever meet, much less work with.

The practice of skipping HR (and the required background check and drug testing) has been problematic for BMG. For one thing, open positions are usually filled by the friends or family members of current employees, regardless of how qualified those folks might be. Just six months ago, the best friend of a Columbus employee was hired to work part-time in the warehouse. In his first day on the job, he ran a forklift into a storage shelf, breaking his arm and destroying thousands of dollars in equipment. Additionally, because decisions about promotions are often made from a “who do I like best” perspective, some employees have complained about being passed over unfairly. Minority employees have also complained that they are similarly passed over for promotions. Unfortunately, the company has also hired employees with criminal backgrounds. In a notable incident, a repair technician based out of the Fayetteville location was sent to a customer office on a Saturday for an emergency HVAC repair. On Monday, that customer called BMG to report that computers, phones, and printers were all missing. After the police were called and security tape footage reviewed, it was determined that the BMG employee and an accomplice had driven a truck up to the loading dock and stolen the missing items. The incident made the local news and was tremendously embarrassing for BMG. It was later learned that the employee had a criminal record for breaking and entering. Had BMG conducted the background check, that employee would have never been hired in the first place.

Sexual harassment has also been an issue at BMG, particularly at the Daytona Beach location. Female employees have filed several complaints about inappropriate comments. Last year, a female employee filed a wrongful termination lawsuit against BMG. The employee alleged that she was inappropriately solicited by her male manager, and after reporting him to his manager, she was fired in retaliation. BMG quickly settled the lawsuit in order to keep the incident out of the news but has yet to fire either of the male employees involved. Both the company’s chief legal counsel and the CHRO want the men fired, but John, Rod, and Marvin don’t agree. These employees happen to be the best salesmen at the company, and John, Rod and Marvin fear that losing them – especially to a competitor – could be detrimental.

Employee training has been another problem for BMG. Any new employees hired to work in the fabrication shops or storage facilities are not only given a best-practices handbook, but are also required to complete a safety class taught by a more senior level employee. Employees who work onsite at construction projects are required to complete similar training. While the company does successfully ensure that all employees are provided this initial training, there are no requirements for recurrent training. Some employees have worked at BMG for over 10 years but have only undergone training one time. This is especially concerning because the more senior level employees are those that train the newer employees – how can an employee who hasn’t undergone training in over 10 years provide thorough and effective training to a brand-new employee?

BMG currently does not have a very competitive benefits plan. Accordingly, the company would like to implement a better benefits plan for all of its employees. Particular emphasis has been placed on health insurance and on developing a more structured and effective retirement plan. However, other options are not out of the question. At the last semi-annual company meeting, a few inquiries were made by employees about the implementation of a 401K plan for all employees. The BMG leadership team is very interested in exploring additional options for the 401K plan, because currently only employees with eight or more years of work at the company are eligible for such plans.

Locations

Marietta, Georgia

The BMG corporate headquarters is a free-standing, 20,000 square foot (sq. ft.) building in an industrial area of Marietta, Georgia. The executive team, DVPs, and administrative functions – to include finance, marketing, HR, and legal – are all located at this location. BMG purchased the two-story brick building in 2005. Just after BMG moved in, an employee accidentally started a fire in the break room microwave. Even though the building wasn't sprinklered at the time, damage was minimal. Nonetheless, a sprinkler system was installed throughout the facility soon after. Today, the building is 17-years-old (with a projected lifespan of 45 years) and is completely sprinklered.

Fayetteville, Georgia

Just after starting the company in 2003, John and Rod purchased a large warehouse in southwest Fayetteville to serve as the company's fabrication shop and storage warehouse. Over the years, BMG has built modular-style offices, meeting rooms, and break rooms inside the warehouse for the employees that work full-time at this location. The company never gets permits or licenses to add additional offices or rooms and has never installed fire sprinklers anywhere in the facility. The 90,000 sq. ft. building is now 26-years-old and has a lifespan of 50 years.

Security at the Fayetteville location has always been a problem. Because Fayetteville is such a family-friendly community, BMG continues to underestimate the need for a more advanced security system. At last check, the total value of all the machinery, equipment, and supplies in the Fayetteville location exceeded \$2 million. Despite the risk of theft, BMG has never installed security alarms or surveillance cameras. The vehicle gate is never locked either, mostly because it was never fixed after being run into a couple years ago. The two bay doors on either end of the building are slid-shut and locked with a padlock each night. All of the other doors are fitted with just an ordinary turn-key style lock. When new employees start, each is given a copy of the key. BMG has no idea how many keys have been made over the years or to whom they have been given. The locks haven't been changed in over five years. While management is concerned about the risk of theft, they are hesitant to institute a stricter security policy for fear of upsetting the employees.

Columbus, Ohio

In 2015, a family friend told Rod about a family-owned HVAC business for sale on the east side of the city. Rod told John about the opportunity, and because they had been looking to open a facility in that area, they quickly moved forward with the purchase. Before closing, BMG was given an opportunity to conduct an environmental assessment of the site, but the company elected to skip the assessment in favor of a quick sale with no complications. After all, BMG was getting a great deal and neither Rod nor John wanted to spend money unnecessarily. Soon after the sale was completed, BMG began construction on an additional wing of the building in order to house additional fabrication equipment. While digging to pour the new foundation, the backhoe struck a large steel tank containing old hydraulic fluid. Rather than worry about removing the tank and conducting exhaustive ground contamination tests, the company reburied it, redesigned the building's footprint, and continued construction. To date, BMG still hasn't conducted an environmental assessment and the company is unsure how many of those tanks are buried across the property.

As the only BMG facility outside the Southeast, the Columbus location serves an important role. The location is the state hub for the management and support of projects led by the construction and change-out divisions, and also serves as local headquarters for the repair division. The onsite fabrication shop is used to repair any system components that arrive in damaged condition from the Fayetteville location, or to make last-minute changes to a system's physical design in a retrofitting project. The storage warehouse is not only used as a staging area for large projects, but also as an inventory stock room for anything that might be needed to repair existing HVAC systems.

The one-story building is 50,000 sq. ft. and 100% sprinklered. It has a lifespan of 30 years and is currently 15-years-old. Located about two miles from the closest fire station, the building construction is masonry non-combustible.

Daytona Beach, Florida

By mid-2011, the construction division of BMG was completing more projects in Florida than in Georgia and Ohio combined. The company recognized a need to have a full-time staff in Florida in order to help secure new business and manage ongoing projects, and ultimately decided to lease office space in the Daytona Business Park in 2012. The office has essentially become the administrative hub for any BMG projects taking place in Florida, and currently 13 employees work there full-time. Note that the Daytona Beach location is not used for fabrication or equipment storage.

BMG opened the 15,000 sq. ft. office on January 1, 2012. In summer 2013, the company re-negotiated the terms of the lease and signed a new 15-year lease agreement where BMG would pay less-than-market rent. The building has a lifespan of 30 years, is currently only 10-years-old, and is completely sprinklered. The monthly rent is \$6,200 and BMG believes that the current market rent per month would be \$8,400.

Daytona Beach Location Lease

The lease for the Daytona Beach, Florida location reads as follows:

WITNESSETH:

Upon the terms and conditions hereinafter set forth, the Landlord leases to Tenant and Tenant leases from Landlord property referred to as the Premises, all as follows:

1. PREMISES. The property hereby leased to Tenant, located at 1663 Clyde Morris Boulevard, together with such common spaces in the building and on the lot where the building is allocated as are hereinafter specified (but one another), which leased property is herein referred to as the Premises.

2. TERM. This lease shall commence on the earlier of the date that the Tenant takes possession of any part of the Premises or January 1, 2012, and shall terminate (unless extended as herein provided) at midnight on December 31, 2021. Provided that Tenant not be in default under any of the provisions hereof, and provided further that Tenant give Landlord one hundred and eighty (180) days advance written notice of intent to do so, Tenant shall have the right to extend this lease for an additional period of six months. Tenant submitted a lease renewal in July 2013, which was approved by Landlord August 1, 2013 and effective January 1, 2014. Renewal extends the term to December 31, 2028.

3. USE. Tenant may use the Premises for manufacturing, storage, and general business, but for no other use without Landlord's prior written consent. In no event shall Tenant make any use of the property which is in violation of any government laws, rules, or regulations insofar as they might relate to Tenant's use and occupancy of the premises, nor may Tenant make any use of the premises not permitted by any restrictive covenants which apply to the Premises, or which is or might constitute a nuisance, or which increases the fire insurance premiums (or makes such insurance unavailable to Landlord) on the building. The tenant is responsible for the payment of the taxes and insurance.

4. RENT. All rent payable by Tenant shall be without previous demand therefore by Landlord, and without setoff or deduction. The Minimum Rent for the term shall be at the rate of \$6,200 per month, which rent shall be payable on or before the first of every calendar month during the term of this lease, unless the term commences other than on the first day of the month, in which event rent at the above rate until the end of that month shall be due and payable on the commencement date. In addition to such remedies as may be provided under the Default provisions of the lease, Landlord shall be entitled to a late charge of five percent (5%) of the amount of the monthly rent if not received when due, and a charge of five percent (5%) of the rent for any check given by Tenant not paid when first presented by Landlord.

5. TENANT'S ACCEPTANCE AND MAINTENANCE OF PREMISES. Tenant or occupant of the Premises represents to the Landlord that it has examined and inspected the same, finds them to be as represented by the Landlord and satisfactory for Tenant's intended use, and evidence Tenant's acceptance "as is". Landlord makes no representation or warranty as to the condition of said Premises. Tenant shall maintain (and so deliver at the end of the Lease) each and every part of the Premises in good repair and condition, and shall make at Tenant's sole cost and expense such replacements, restorations, renewals, or repairs in quality equivalent or better than the original work replaced, as may be required to so maintain in the same, ordinary wear and tear only excepted.

6. TENANT'S BETTERMENTS AND IMPROVEMENTS. Tenant shall make no structural or interior alterations of the Premises without Landlord's prior written consent, and any work performed by Tenant shall be done in a good and workmanlike manner, and so as not to disturb or inconvenience other Tenants in the building. Tenant shall not at any time permit any work to be performed on the Premises except by duly licensed contractors or artisans, each of whom must carry general public liability insurance certificates, of which copies shall be furnished to the Landlord.

7. RENT SHALL ABATE. If, during the continuance of this lease, said premises shall be so damaged by fire or other casualty as to be rendered untenable, then, in case said premises shall not be repaired within 30 days thereafter, this lease may be canceled at the option of either party, and rent shall be payable only to the date of such fire or other casualty. If the premises are damaged, but not rendered wholly untenable by such casualty, rental shall abate in proportion as the premises have been damaged, and the lessor shall restore as speedily as practicable, whereupon, full rent shall recommence.

8. TENANT'S COMPLIANCE--PROPERTY. Tenant shall comply with all applicable laws, ordinances and regulations affecting the Premises, including general rules for Tenants as may be developed from time to time by Landlord and delivered to Tenant or posted on the premises, and shall hold Landlord harmless from loss, cost, or expense resulting from or occasioned by Tenant's use of the Premises, whether caused by Tenant or by its agents, servants, employees, independent contractors or licensees. Tenant shall maintain and care for its personal property on the premises, insure the same to such extent as it deems appropriate, and shall neither have nor make any claim against Landlord for any loss or damage to the same, regardless of the cause thereof. Tenant is further responsible for insuring building. Tenant shall maintain through the term of this lease general public liability insurance in amounts acceptable to Landlord and naming Landlord as an insured party, and shall furnish Landlord copies of such policies and evidence of payment for premiums prior to the date such policies would be in default for nonpayment.

9. REPAIR OF PREMISES. Lessee shall repair partitions, all glass and plate glass, elevators, electric and plumbing fixtures, and all machinery whatever in leased premises. Lessee shall be liable for and shall hold Lessor harmless in respect of: damage or injury to Lessor, premises, and property or persons of Lessor's other tenants, or anyone else, if due to act or neglect of Lessee, or anyone in his control or employment. Lessee shall at once report in writing to lessor any defective condition known to him which Lessor is required to repair, and failure to do so shall make Lessee responsible for damages resulting from such defective condition.

10. RISKS OF INJURY. The Landlord shall not be responsible for any injury which shall be sustained by the Tenant or any employee, customer, or other person who may be upon the Premises or in the said building or the entrances or appurtenances thereto. All risks of any such injury being assumed by the Tenant, who shall hold the landlord harmless and indemnified therefrom.

Building Values and Personal Property

Building Location	Owned/ Leased	Sq. Ft.	Replacement Cost	Actual Cash Value	Property & Equipment	Average Inventory
1150 Cobb Industrial Dr Marietta, GA 30066	Owned	20,000	\$985,000	\$612,889	\$66,150	\$0
485 W Fayetteville Road Fayetteville, GA 30214	Owned	90,000	\$3,200,000	\$576,000	\$1,697,100	\$320,000
1663 Clyde Morris Blvd Daytona Beach, FL 32117	Leased	15,000	\$795,000	\$530,000	\$67,750	\$0
6511 Taylor Road Columbus, OH 43004	Owned	50,000	\$1,260,000	\$430,000	\$1,124,770	\$320,000
Total	-	175,000	\$6,240,000	\$2,148,889	\$2,955,770	\$640,000

Miscellaneous/Additional Information

BMG projects its annual growth rate for the next three years to be 12.5%. The company's discount rate is 4.6%. The average annual inflation rate for the areas in which the company is located is 2.1%. The company's income tax rate is 21%. The financial statements shown in this case reflect the income that BMG receives from all operations.

Local building codes require that any building suffering damage of 25% or more be rebuilt to current codes. Any building 15 years of age or older, incurring damage of 40% or more, must be demolished and rebuilt. Each BMG facility has a 12' by 12' sign located at the entrance. Each sign is encased in glass and lighted. The value of each sign is \$11,500. The metal fence that surrounds the Fayetteville location is worth approximately \$33,000.

The following information would apply to the addition of overhead sprinklers to the Fayetteville location:

<i>Water Main Construction</i>	<i>\$4,350</i>
<i>City Tax</i>	<i>4.8%</i>
<i>Water Tower</i>	<i>\$2,700</i>
<i>Installation Charge and System Cost</i>	<i>\$0.86/sq. ft.</i>

The installation of the sprinkler system would result in a property insurance rate decrease of \$0.41 (per \$100) for the building, and \$0.29 for the contents on the premises.

The company owns a total of 178 computers, including both laptops and desktops. The preferred vendor is Dell and the average cost per computer is \$1,000. Each laptop can remotely access the company's secure server so that whenever employees travel, they have access to the files they need. In order to keep things simple, BMG doesn't require that employees ever change their computer or network passwords after they are first set-up, nor are any of the wireless access points at BMG locations secured. Each location also has two Xerox WorkCentre 5330 all-in-one printers. The company purchased each printer for \$5,100 two years ago. Additionally, the Fayetteville and Columbus locations each purchased an HP DesignJet T795 large format printer for \$6,000 last year.

Currently, BMG is using three different insurance brokers to handle its business. The policies renew at three different times during the year. The policies are retained by each location, but the company does not have a consistent standard for how long the policies should be retained. Management has had difficulty locating some policies in the past. BMG wonders if there is a better way to handle insurance

buying, but does not think that its current methods are that unusual. A formal broker selection or insurance marketing process has not been conducted for over eight years.

Business Income Calculation

For BMG, assume that the maximum shut-down time for any facility is four months; that is, it would take four months for an individual location to resume normal operations after a total loss. The company has put very little thought into what would happen to the suppliers and customers in the event of a major loss to one of the properties. Assume that stock inventory was approximately equal in value at the beginning and end of the past financial year.

Workers' Compensation Analysis

BMG has previously considered both retrospectively rated and guaranteed cost workers' compensation insurance plans. They also believe that there might be some differences with regard to options available in the state of Ohio. BMG is interested in suggestions on what the implications of these different rating plans are and which type of plan might be best for them.

A summary of workers' compensation losses for the past three years is included in this case. BMG has really never looked carefully at the various causes, types, severity, frequency or injury types of its workers' compensation losses. Also, a review of trends that are present in BMG's past losses and options that might be useful in managing the losses would likely be valuable to consider. Also, BMG really doesn't have any understanding for loss reserves and the notion of open and closed claims.

Workers' compensation experience has been poor for several years. In 2018, the experience modifier was 1.70. In 2019, it jumped to 2.15.

Claims and Losses

Workers' Compensation Losses

Current Year (2019)	Incurred	Paid	Open/Closed (O/C)
Burns to face & hands (due to explosion)	\$ 55,200	\$ 27,100	O
Burns to face & hands (due to explosion)	70,700	61,900	O
Burns to face & hands (due to explosion)	68,500	33,600	O
Burn on hands (hot water spill)	25,600	19,200	O
Broken arm (forklift accident)	14,700	8,900	O
Hurt back (lifting equipment)	13,700	10,900	C
Head injury (fall from forklift man basket)	50,700	45,700	O
Cut off fingers (trying to fix a jam in a machine)	41,400	41,100	O
Broken leg (basketball at lunch incident)	16,600	12,100	O
Broken finger (slammed in door)	11,800	9,600	C
Broken spine (run over by delivery truck)	59,700	49,100	O
Neck pain (ergonomic concerns)	6,900	5,000	C
Broken wrist (slip & fall)	16,600	14,600	O
Hurt back (moving equipment)	13,700	12,100	C
Eye injury (cleaning solution splatter)	19,400	7,200	O
Twisted ankle (trip & fall)	12,500	10,500	C
Broken arm (forklift accident)	15,600	3,000	O
Pulled back (unloading boxes)	5,700	5,400	C
Pulled back muscle (moving furniture)	9,900	4,600	C
Cut off fingers (trying to fix a jam in a machine)	3,700	1,500	O
Hurt back (moving equipment)	12,300	2,900	C
Burns to hands (trying to put out a fire)	51,800	26,800	O
Broken arm (forklift accident)	11,300	11,000	O
Heatstroke (landscaping)	14,500	6,600	C
Electrocution (repair work)	24,700	10,200	C
Electrocution (repair work)	20,700	15,000	O
Concussion (forklift accident)	12,100	8,500	O
Broken finger (slammed in door)	16,300	15,000	C
Cut off hand (doing work on the lawnmower)	44,900	14,000	O
Last Year (2018)	Incurred	Paid	Open/Closed (O/C)
Cut off fingers (trying to fix a jam in a machine)	\$ 13,000	\$ 3,500	C
Broken wrist (slip & fall)	8,400	7,600	C
Neck pain (ergonomic concerns)	9,700	7,500	C
Broken leg (run over by truck)	46,000	31,700	C
Pulled back muscle (unloading boxes)	15,100	8,800	C
Broken finger (slammed in door)	8,800	8,400	C
Broken arm (forklift accident)	13,600	4,100	O
Broken nose (fight)	6,900	6,800	C

Broken wrist (fight)	21,600	21,100	O
Burns to face & hands (due to explosion)	52,300	17,600	C
Burns to face & hands (due to explosion)	61,500	56,400	O
Hurt back (moving equipment)	27,200	8,200	C
Eye injury (thrown rock from lawnmower)	27,200	26,900	C
Fractured ankle (slip & fall)	12,400	7,500	O
Cut off fingers (trying to fix a jam in a machine)	20,500	10,000	O
Pulled back muscle (unloading boxes)	16,600	16,200	C
Head injury (fall from ladder)	18,700	9,000	O
Staple in finger (office work)	5,300	4,700	C
Hurt back (moving equipment)	31,400	10,200	C
Broken arm (repairing machine)	16,800	7,600	C
Slipped disc (unloading boxes)	22,600	12,300	C
Broken ankle (falling off ladder)	20,500	4,300	O
Burn on hands (hot water spill)	17,200	8,600	C
Two Years Ago (2017)	Incurred	Paid	Open/Closed (O/C)
Cut finger (trying to fix machine)	\$ 10,200	\$ 5,500	C
Burn on hands (grease fire)	22,600	21,400	C
Back hernia (unloading truck)	13,300	11,100	O
Concussion (falling off ladder)	29,900	11,400	C
Hurt back (fall from ladder)	19,300	15,000	C
Broken ankle (tripped on wiring)	22,100	6,200	C
Concussion (hit by falling equipment)	15,700	13,800	C
Pulled back muscle (moving equipment)	16,600	10,400	C
Eye injury (falling debris at project site)	20,400	14,500	C
Broken ankle (tripped on wiring)	26,600	22,600	C
Broken arm (forklift accident)	20,400	13,800	C
Vocal chord injury (yelling at manager)	11,100	6,500	O
Broken hand (trying to fix machine)	18,600	5,800	C
Pulled back muscle (moving tables)	16,800	13,600	C
Broken arm (forklift accident)	10,200	8,100	C
Chemical burn on hands (cleaning solution spill)	24,300	11,300	C
Three Years Ago (2016)			
There were 12 losses which incurred \$186,900 in claims expenses.			
Four Years Ago (2015)			
There were 9 losses which incurred \$129,800 in claims expenses.			

Liability Losses

Liability Losses	Incurred	Paid	Open/Closed (O/C)
Delivery driver cut hand on rusty lock at loading dock	\$ 6,300	\$ 1,300	C
Drywall ruined after explosion	5,200	4,300	O
Flooring destroyed after explosion	9,600	1,600	O
Roof damaged after explosion	19,200	13,500	O
Theft office equipment from customer site	11,000	8,700	C
Vendor electrocuted during repair	14,000	12,100	C
Child hit on head by falling hammer	5,800	1,500	O
Subcontractor claims sexual harassment by employee	28,000	4,800	C
Subcontractor punched by employee	6,000	2,100	C
Machine repairman electrocuted during repair	9,200	3,700	C
Destroyed a customer's carpet in residential repair job	4,000	800	C
Subcontractor died after fall	200,000	160,000	C
Runoff from rainwater caused damage to neighbor facility	14,000	10,400	C
Delivery driver slipped on wet floor	8,900	7,200	O
Janitor slipped on debris	12,700	5,000	C
Vendor electrocuted by exposed wiring	10,000	1,400	C
Roof damaged after explosion	23,000	22,900	O
Caused drywall damage in change-out project	2,500	1,400	O
Flooring destroyed by dropped unit	8,500	2,400	C
Sheetrock puncture	1,000	600	O
Delivery driver assaulted by employee	31,000	27,900	O
Vendor electrocuted during repair	8,200	5,800	O
Machine repairman broke arm during repair	8,600	4,300	C
Subcontractor punched by employee	5,700	1,100	C
Subcontractor claims sexual harassment by employee	6,500	3,000	O
Tile floor destroyed after air handler dropped	8,800	7,800	O

Property Losses

Description of Loss	Location	Date of Loss	Amount of Loss
Fire in the warehouse	Columbus, OH	11/18/2019	\$ 18,000
Fabrication machine caught fire	Fayetteville, GA	8/15/2019	45,000
Hail damage to repair vehicle	Fayetteville, GA	7/22/2019	12,000
Computers fried after lightning strike	Daytona Beach, FL	7/3/2019	3,000
Equipment destroyed by misuse	Columbus, OH	6/12/2019	50,000
Wind damage to roof	Daytona Beach, FL	5/1/2019	9,000
Equipment damaged in fire	Fayetteville, GA	3/5/2019	12,000
Flooding	Columbus, OH	12/5/2019	6,400
Office furniture damaged in fire	Daytona Beach, FL	9/24/2018	8,000
Storm damage to roof	Daytona Beach, FL	8/11/2018	2,800
Flooding	Columbus, OH	8/1/2018	9,200
Inventory destroyed after forklift accident	Columbus, OH	7/23/2018	12,000
Hail damage to repair vehicle	Fayetteville, GA	6/5/2018	4,600
Loading dock damaged by truck	Fayetteville, GA	2/10/2018	5,780
Inventory destroyed after shelf collapse	Fayetteville, GA	12/15/2017	26,000
Broken windows during tornado	Columbus, OH	10/1/2017	6,400
Tree fell on building during storm	Marietta, GA	9/8/2017	22,000
Vandalism by local teens	Marietta, GA	4/30/2017	1,200
Computers fried after lightning strike	Daytona Beach, FL	3/22/2017	5,000

Financial Statements

Balance Sheet

BULLDOG MECHANICAL GROUP, LLC	
BALANCE SHEET	
YEAR END DECEMBER 31, 2019	
ASSETS	
CURRENT ASSETS	
Cash and Marketable Securities	\$ 490,000
Inventory	640,000
Accounts Receivable	3,500,000
Notes Receivable	793,000
Other Current Assets	672,000
Total Current Assets	<u>6,095,000</u>
LONG TERM ASSETS	
Buildings	4,710,000
Less Depreciation	(2,561,112)
Property & Equipment	2,955,770
Less Depreciation	(960,625)
Total Fixed Assets	<u>4,144,033</u>
TOTAL ASSETS	\$ 10,239,033
LIABILITIES	
CURRENT LIABILITIES	
Account Payable	\$ 1,650,000
Other	1,444,000
Total Current Liabilities	<u>3,094,000</u>
LONG-TERM DEBT	
Long-Term Debt	<u>878,680</u>
Total Long-Term Debt	878,680
NET WORTH	
Shareholders' Equity	2,463,353
Retained Earnings	3,803,000
Total Net Worth	<u>6,266,353</u>
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 10,239,033

Income Statement

BULLDOG MECHANICAL GROUP, LLC			
INCOME STATEMENT			
YEAR END DECEMBER 31, 2019			
NET SALES	\$	26,102,230	\$ 26,102,230
EXPENSES			
COGS		13,687,530	
OSHA Fines		131,400	
Payroll		5,326,030	
Subcontracted Labor		5,622,000	
Other Expenses		691,978	
Total Expenses		25,458,938	25,458,938
EARNINGS BEFORE INTEREST & TAXES			<u>643,292</u>
Less Interest			(70,295)
EARNINGS BEFORE TAXES			<u>572,997</u>
Less Taxes (21%)			(120,329)
NET INCOME			<u><u>\$ 452,668</u></u>