

Case Study Kipnuk Boardwalk



Solving Transportation Needs in a Remote Alaskan Village



In Alaska, permafrost covers 80% of the land. Continual freezing and thawing of the ground makes construction of roads and bridges a challenge. As a result, all-terrain vehicles and wooden boardwalks are the primary means of transportation in many remote areas.

While boardwalk projects are fairly straightforward, they can be more difficult to complete in Alaska. First, **treated lumber must be shipped from the lower 48**, which can greatly add to the cost. Second, **construction is often limited to warmer months due to frigid temperatures and lack of sunlight**. Thus, logistics and scheduling are key factors in weighing any construction in Alaska.

The Challenge

Underwriting a large project in a remote part of Alaska.

Old Republic Surety's Approach

Understand and mitigate the risk, get to know the contractor, then wholeheartedly embrace the project.



OLD REPUBLIC INSURANCE GROUP

Kipnuk, a fishing village 90 miles southwest of Bethel, Alaska, on the Bering Sea, is home to 639 people. In 2012, the Alaska Department of Transportation bid a project to build 4.7 miles of boardwalk to connect the 180 houses and other structures in the village. An older, narrow boardwalk had been built with untreated lumber placed directly on the tundra and was falling apart. The new 10-foot-wide boardwalk would be pressure-treated and built using load-bearing cribs and piers.

Ray Paiement, vice president and partner at Anchor Insurance & Surety in Eugene, Oregon, was the agent for the project. Anchor is one of the top surety producers in the Northwest, and Paiement decided to submit the project to Old Republic Surety.

"I had known Darrel Lamb for many years; he had recently joined Old Republic and was looking to write business in the Northwest and Alaska," Paiement recalls. "I knew, too, this might be a tough project to underwrite, and Darrel is not one to shy away from a challenge."

Lamb met with the contractor, **Ron McCormick, and his son, Garrett**. Ron was the owner of **Northern Construction Services** and had extensive experience with treating lumber and shipping it to Alaska for boardwalk projects. At his facility in Eugene, Oregon, he had manufactured lumber for 40 boardwalks.

"The more I looked into it, the more I was convinced this would be a great project for Old Republic," Lamb says. He set out to convince the company's underwriters to take it on. It would be the surety's single largest bond to date, and there was some concern about the location.

A Leg Up on Lumber Costs

"I was able to make a solid case for the project," Lamb says. "A key consideration for me was that Ron McCormick was an expert on lumber." McCormick was already supplying wood to five other boardwalk projects and knew the most efficient way to procure and ship wood and materials to Alaska. He had previously built a \$7.2 million boardwalk for the village of Selawik and a \$1.5 million boardwalk in Bethel.

While this was bigger than his previous projects, it required little labor, virtually no subcontractors, and no electrical, mechanical or concrete work. In fact, a hand drill was the major tool.

Old Republic Surety approved the bond, which initially was for \$8.5 million. It ultimately grew to just shy of \$12 million.

Construction began in 2012 and was completed in 2014. The contractor rented houses in Kipnuk for the workers to stay in. Whenever possible, they hired native Alaskans to work with their crews from Oregon. The project also required that inspectors from the state be housed for the time they were on the job site.

"We installed about a million board feet of decking," says McCormick, "and we drove over 2,000 piers into the permafrost to support the boardwalk. There were on- and off-ramps and intersections, just like you'd see on a road. It was really quite extensive."

The job was completed on time with a solid profit margin, and the villagers were thrilled with their new boardwalk.

Mutual Trust and the Beginning of Bigger Projects

"Another surety might have said 'no' to this project, but I give credit to Old Republic for believing in the contractor and in me as the agent," says Paiement. "Darrel chose not to take the easy way out and give up on it. He trusted me, and that means a lot in this business."

"Darrel and Ray worked their tails off for us," says McCormick. "It was a great team effort. I can't say enough about Old Republic's involvement. Old Republic's president came to Alaska and was personally committed to the project."

"I really think Kipnuk was a turning point for Old Republic and its decision to pursue larger projects," Paiement adds. "It showed them how they could grow and become the company they wanted to be."

Notes Lamb, "Today, writing a \$12 million bond has become routine for us. We've streamlined the underwriting process so that now a regional vice president can make that decision. It doesn't need to go through the home office.

"Of course, you have to have credibility with the agent and contractor to deliver on those higher amounts of bonding," Lamb says. "You ask for it, and then you deliver. In the end, it's about building trust and sticking up for your clients."

"It doesn't matter what the price tag is on a project, whether it's \$500,000 or \$50 million. It's about understanding the risk and whether the contractor has the experience to mitigate that risk. If they've got it down and have a good road map, then I'm in."

Northern Construction
Services



Darrel Lamb
Regional Vice President
Old Republic Surety

Kipnuk Boardwalk at a Glance

Surety bond amount:
\$12 million

Length of the boardwalk
4.7 miles

Owner:
Alaska Department of Transportation

Residences serviced:
180