ADMINISTRATION & FINANCE COMMITTEE
Meeting Minutes

Wednesday, May 28, 2014
IRMA Office
9:30 a.m.

PRESENT:	David Clark, Chair	Dan Nisavic
	Janet Gorman	John Prejzner
	Spencer Parker	Gerald Sagona
	Katy Rush	Eric Helm
	Darrell Langlois	Doug Haywood
ALSO PRESENT:	Margo Ely	Rita Boserup
	Mary Henzler	Susan Garvey
	Mark Tomaw, McGladrey	Brian Goding, Marquette Associates
	Phil Modaff (Carol Stream)	(via telephone)
ABSENT:	None	

I. CALL TO ORDER

Chair Clark called the meeting to order. Roll was called and a quorum declared.

II. APPROVAL OF MINUTES – February 14, 2014

A motion was made by Rush and seconded by Sagona to approve the Administration and Finance Committee Meeting Minutes of February 14, 2014. A voice vote was called and the motion carried.

III. FINANCIAL REPORTS

A. IRMA Financial Statements as of March 31, 2014
B. IRMA Investment Portfolio as of: Final for 2013, 3/31/14, 4/30/14 (Draft)
C. IRMA Payables for the period February 1, 2014 – April 30, 2014

Clark asked if anyone had questions on the financial reports. A question was raised as to why the assessment for Workers' Compensation was twice as high as it was for the previous 6 month period. Boserup explained that this is paid to the State of Illinois and is based on a formula that they give us every year. This was a state-wide increase and not just to IRMA.

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To accommodate Brian Goding who couldn't be at the meeting, this item was taken out of turn. Goding joined the meeting via telephone.

VII. 1st QUARTER INVESTMENT PERFORMANCE REPORT

Goding referred to page 19 of Exhibit 1 of the report, explaining that this gives a summary of all composites including the total fund and all the underlying managers that make up each one of the composites. For the quarter, the Total Fund was up 1.4% versus the benchmark of 1.8%.

In Fixed Income, PIMCO underperformed for the quarter, Western Asset continues to do well, and the TIPS portfolio continues to perform in line with the index. The Equity Composite is up about .8% for the quarter, versus the benchmark that is up 2%.

Goding stated that what the committee doesn't have is a rebalance sheet. Goding stated that at the last AFC meeting a major rebalance was done and we are very close to target, so there is no recommendation to rebalance at this time. Goding stated that the other piece he wanted to share with the committee is that we talked at the last meeting about having some fixed income alternative to the core portfolio that we currently use. Goding stated that he had an educational piece that he would like to discuss possibly at the next meeting. Clark agreed that the next meeting would be fine.

A motion was made by Rush and seconded by Sagona to approve the financial statements. A voice vote was called and the motion carried.

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To accommodate Phil Modaff of Carol Stream, who was present at the meeting, agenda item XI was moved up in the agenda.

XI. REVENUE BASE DEDUCTIONS – OUTSOURCED FUNCTIONS

Clark explained that the bylaw amendment was approved at the March Board of Directors meeting, allowing for a revenue deduction of 90% of payments made to independent contractors if certain conditions are met. The Village of Carol Stream has submitted a contract for consideration of the 90% deduction for contracting out the Village's operation of their Water Reclamation Plant. Clark stated that the committee needs to determine whether what they are requesting is within the intent of the amendment. There are a couple of questions. Is it the intent that the services are to be outsourced and the risk transferred completely? Also, the Village has historically been provided the 50% deduction of the revenue for sewer processing. The question is should they be entitled to both the 50% deduction of the revenue for sewer processing and the 90% deduction for contracting out the operation of their Water Reclamation Plant.

Clark stated that he didn't see that a member should be entitled to both. He also stated that he felt that the entire risk needs to be transferred.

Boserup stated that she had a discussion with Carol Stream Finance Director Jon Batek about their CAFR and the cost of running their Water Reclamation Plant, because there are a lot of allocated charges and we want to understand what is in the CAFR. The Operation Personnel are the only people in the plant. There is the question of whether they drive Village vehicles. Modaff stated that there are two Village vehicles at the plant and they do drive them. There are still the other costs of operating the plant – the capital costs. The contract is about $1.7 million and the total cost of operating the plant is about $7 million. Boserup stated that in the discussion with Batek, he indicated that, yes, they are outsourcing the operation, but they would still like the sewer deduction because they are still processing the wastewater through the plant. They don't consider this double dipping.

Clark stated that maybe the contract is not intended to outsource the entire risk of the entire operation – just that portion of workers' compensation or whatever else is associated with the workers.

Modaff stated that they hire an outside firm to manage and operate the plant, so they have a plant manager there and he oversees their employees for a total of seven present who operate the plant. Modaff stated the he administers this contract. On the capital side, the Village directly oversees the design, construction, rehabilitation and replacement and things of that nature.

Garvey stated that part of the question in this contract that staff wanted to discuss is whether they are truly transferring all of the risk in this contract to lay title to the 90% deduction. Another issue was the double dipping. Is there a level that we are comfortable with not having transferred in order for them to get the 90%. Garvey noted that in looking at the contract, she raised the issues that they still owned the building and Village vehicles were being used.

Modaff stated that when he read about the amendment, he contacted Delegate Bob Mellor and said that this was a big contract and asked if it would qualify. Mellor looked at it and contacted Garvey to review the contract. At the time, the Village didn't even contemplate double dipping as being an issue to consider. Modaff stated that at this point Carol Stream is not demanding anything and commented that he didn't know if they have even examined the double dipping possibility. It's more of an initial look at this, and it sounds like this falls outside of what was initially contemplated.

Clark stated that when we talked about the risk transfer, he didn't think about it in the terms of having a substantial service or only part of it.

Rush asked whether this could be addressed by taking a simplistic approach by taking the net amount of revenue, subtract out the contract and give 50% credit on the remainder, then you can take the credit on the remainder.

Prejzner stated that when we initially discussed the intent was that this applies to when you outsource an entire function – like Lincolnwood that outsources their entire fire department. How do you calculate the amount of risk of workers' compensation? The majority of the risk is with the operation of the capital.

Rush stated that in the case of Lincolnwood, she suspects that they still own all their fire trucks and their fire houses, so what's the difference?

Gorman stated that what she understood was that it is more like garbage contracts – everything goes to that garbage company. She was looking at it as a complete transfer of all liabilities, and now we are talking about allowing partial risk transfer. Gorman stated that her town even brought up why they can't do it with DuPage Water Commission. Is this going to be a contract that would be considered? Gorman stated that she has some concerns about the general liability in the Carol Stream contract.

Modaff asked Garvey what the deficiencies were between their contract and the transferring risk language that you would want. Garvey stated that she did put in hold harmless language because Carol Stream does still own the building and what might come out of that. But you still have that risk because the Village would be liable for anything that happened to the building. My question, then, is this a total transfer? Is this what the committee was intending to do. Garvey explained that the Carol Stream contract was the first one that came in other than garbage contracts and it raised some questions. Rush noted that there are some communities that contract out fully their paramedic services and paramedics are operating the ambulances.

Clark asked whether the committee felt strongly that we want to draw a line that's all or nothing – the entire risk is transferred. Clark stated that he liked Rush's suggestion that to the extent where it is demonstrated that part of the risk is transferred that you take that contract if it is an enterprise operation and subtract it from the revenue base. Clark stated that he felt comfortable with that. Rush suggested that maybe you want to play with that in terms of the data collection a little bit.

Langlois asked how the risk transfers. If these employees mess up, how can the risk of these employees be completely transferred from the Village? Clark stated that it was a good question and whether or not transferring workers' compensation is enough of a transfer. There are other things like general liability, property damage, etc. Langlois asked then how can there be 100% risk transfer in this case. Rush stated that if the risk transfer in Lincolnwood is similar to the risk transfer in the Carol Stream case, then I think you would want to treat them similarly. Garvey noted that the hold harmless language is what would really do the transfer of the risk. The hold harmless language says that the contractor is going to be liable for whatever, so even if they come after the Village, conceivably the Village should be able to go back to the contractor and get whatever losses. It's not foolproof, and that's why the 90% deduction came in. The hold harmless language is what is intended to transfer that risk.

Gorman expressed concern with sewer and sewage is that the EPA will come after the Village. They don't care that it is a private contractor. Can we waive certain things; we may not be able to do that in order to have a complete liability transfer. Gorman commented that you have to look at the dollars and if you cut away from the revenue base, we know what we went through in earlier years in discussions on the revenue base. As a pool, Gorman stated that she would be concerned about that. Boserup noted that as a pool, the credit that we would give to Carol Stream, the rest of the members would make up.

Clark stated that we are so new into this that his impression is that the previous discussion that the committee had and the approval was based on all or nothing. Maybe we take matters like this under advisement to consider but take a longer term approach to evaluate the impacts before we try and interpret it differently than what the Administration & Finance Committee and full Board voted on in the original Bylaw amendment.

Rush stated that she is looking at the dollars and if you look at the third paragraph of the memo, we are not talking about huge amount of dollars. Boserup noted that the sewer deduction and the contract are fairly close, so in this particular case if you did one of the other, it's not that great of an impact. However, we have to remember that we are setting precedent here. Down the road it could be a larger spread.

Clark stated that he thought we should stick with what the original vote was. He stated that we wouldn't be dismissing this, but take a bit more time to evaluate it and consider the impacts.

Rush asked Modaff if he knew of any other communities that have similar situations. Modaff stated that he thought that West Chicago had a similar situation. Rush stated that maybe we could find additional data on how other communities handle this and what their perspectives would be.

Clark commented that he did like Rush's suggestion, but thought maybe we would want to take a little more time – let a year go by and think about this rather than jumping into this right away.

Clark commented that Rush seemed comfortable with her suggested approach to this and wanted to get a sense from the rest of the committee of what they thought. Do we want to make a motion to stay status quo for this year based on what was adopted or to allow for the deduction of the contract from the revenue base.

Parker asked if Lincolnwood is getting the deduction. Garvey replied, yes, they do get the deduction. Parker then asked what the difference is in this situation with the risk transfer. Haven't we already set precedent?

Ely stated that difference between the Lincolnwood situation and Carol Stream is revenue base. There isn't a revenue base deduction for fire service revenue. If there is a concurrence that the intent was to not have a double-dipping, then we can make that change and put in front of the Board in June. With the respect to the ability to transfer all of the risk, we have learned that the contractor does drive Village of Carol Stream vehicles. We can make sure that the contractor carries auto insurance for that purpose. So what is the additional exposure then? What is the risk if the contractor is driving the Village vehicle if they have their own insurance? The question is what additional risk is there really there. The 10% was determined to handle those outliers. It is really hard to quantify. Maybe we give it a year or two and see what kind of exposure we encounter. We can always tweak the bylaws.

Sagona wanted to know how we came up with 5%. Rush stated that the committee had discussed and came up with that percentage, thinking it was fair. Sagona asked what if it was 7% or 10%. Clark stated that at the time of the discussions on the 5%, a survey was conducted to ask members about the contracts that were out there.

Gorman stated that from what she was hearing, you have already set a precedent with Lincolnwood. Garvey noted that the original request came in from Barrington and that was approved and then Lincolnwood was in the same situation, so they were approved as well.

Gorman stated that if you have established this, then she would think that Carol Stream would qualify under the same standard. Rush noted that until we change the bylaws, they would be able to take both deductions, thereby double dip. We can't change that they get to take both unless we change the bylaws. Boserup stated that this will affect the 2016 revenue base.

Gorman commented that what we are looking at as a committee is should a member meeting all of the qualifications be allowed to take both deductions versus going back to change the bylaw.

A motion was made to Nisavic and seconded by Gorman to revise the new bylaw to reflect a credit where there is otherwise a deduction available to allow for a credit before the 50% reduction, so that it is a net deduction rather than a gross deduction, based on the outsourcing price. A voice vote was called and the motion carried.

In reviewing the change to the bylaw Section 3.03 (xiii) (a), it was agreed to remove the word "suggested" from the sentence.

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To accommodate Mark Tomaw from McGladrey, the 2013 Audited Financial Report was moved up in the agenda.

V. 2013 AUDITED FINANCIAL REPORT (Tomaw)

Mark Tomaw of McGladrey reviewed the two handouts, Financial Statements for Year-Ended December 31, 2013 and the Report to the Administration and Finance Committee dated May 28, 2014.

Tomaw noted that the process this year is a little bit different, as the Department of Insurance is now requiring that the filing of financial statements be made by June 1, where in the past we were able to get an extension and file the CAFR with the Department of Insurance at the end of June. As a result, this is just the basic financial statements and the full CAFR will be distributed in late June.

Tomaw went through the highlights of the financial statements, and reviewed the Report to the Administration and Finance Committee. Tomaw noted that there was one deficiency in internal control that was determined not to constitute a significant deficiency or material weakness, involving a key control over wire transfers that are reported to the Administration and Finance Committee (AFC) on a periodic basis. Their testing identified three wire transfers that were not reported to the AFC; however, the amounts were not significant and were recurring transactions. Tomaw stated that they recommend that the wire transfer listing be reviewed for completeness and accuracy by an individual other than the person preparing it prior to submission to the AFC. That review should also be documented.

Tomaw concluded that overall, the audit went well. A motion was made by Helm and seconded by Gorman to accept the 2013 Audited Financial Report. A voice vote was called and the motion carried.

IV. ACTUARIAL REPORT AS OF 12/31/13

Clark reported that the 2015 selected loss fund rate is estimated to be $1.879 per $100 of revenue base, for a decrease of 3.94%. Clark stated that the final loss fund rate will be determined in September when the actuary looks at development over the six month period and updates the rate.

Clark noted that we haven't had the actuary out to an AFC meeting for quite awhile, and suggested that maybe we could have the actuary out next year when we discuss the increase in the $2,500 deductible.

A motion was made by Prejzner and seconded by Rush to accept the Actuarial Report as of 12/31/13. A voice vote was called and the motion carried.

VI. SEGREGATION OF DUTIES

Boserup stated that this was basically what was reported last year with a few revisions. Clark stated that this item was for information only.

VIII. PURCHASE & SALES POLICY REVISIONS

Clark stated that this is based on the discussion at the last AFC meeting. Boserup stated that with Bush leaving and since the limits hadn't been increased since 2004, he had wanted to broach the subject of increasing the limits rather than have the new Executive Director handle this right away. Boserup stated that these were the numbers that Bush had requested. Boserup stated that she personally would like to see the check signing requirement raised from $15,000 to $50,000. Boserup noted that there was a schedule of checks issued in excess of $15,000 since January 1, 2013 in the packet. The listing shows both checks between $15,000 and $50,000 and those checks in excess of $50,000. Boserup noted that if we go to electronic payment, which is the next agenda item to be discussed, very few of the checks currently being issued over $50,000 will need a second signature.

Clark noted that there was a question on competitive bidding requirements. Ely noted that an opinion from Chris Naveja, IRMA's Corporate Counsel, was in the packet; but had actually been updated a couple of days ago. The opinion in the packet says that that IRMA should comply with the law with regard to competitive bidding requirements. We need to look at what all of our members do in regards to procurement purposes and we have to adopt the most stringent requirement. This is according to the opinion in the packet that is more applicable to the City of Chicago. The updated opinion from Naveja is that the competitive bidding requirements for municipalities under 500,000 are for public works projects that exceed $20,000. We are back to the question, what should our purchasing policy be. Right now it doesn't require competitive bidding explicitly. In light of the movement of IRMA toward more transparency under the Open Meeting Act and FOIA, we need to take a closer look at this and provide some revisions to this for the September meeting.

A motion was made by Rush and seconded by Parker to approve the revisions to the Purchase and Sales Policy as presented and to bring back further information regarding competitive bidding requirements that are currently not in the policy. A voice vote was called and the motion carried.

IX. ELECTRONIC PAYMENT PROCEDURES

Boserup stated that we have a number of vendors and members who would prefer that we pay them electronically. We have a couple of vendors we have to pay electronically – Blue Cross Blue Shield and IRMF. We would like to expand this to include routine invoices that have already been budgeted, such as ComEd, Comcast, postage meter rental, UPS, etc. We would also like to expand to electronic payments for ACH/Wire transfers with some our larger vendors, insurance carriers, brokers, etc.

A motion was made by Rush and seconded by Helm to approve staff's request to pay invoices via electronic methods.

A discussion ensued regarding whether there was a Finance policy or procedure regarding payment procedures. Ely noted that there was nothing in the Purchase and Sales Policy that would prohibit the electronic payment of invoices, and suggested that perhaps we could table this and bring it back to the next meeting. It was determined that this was not necessary. A voice vote was called and the motion carried.

X. 2014 POTENTIAL INTEREST INCOME CREDIT

Boserup noted that this was for information only and explained that next year there will be a transfer of almost $21 million into the Members' Reserve, which will be available for an Interest Income Credit. Rather than go without a credit in 2014 and then issue a very large credit in 2015, staff is suggesting that the Administration and Finance Committee consider providing an Interest Income Credit in 2014. A suggested range for the Interest Income Credit will be provided to the committee in the fall.

XII. EXECUTIVE SESSION

A motion was made by Prejzner and seconded by Helm to move into Executive Session to discuss personnel issues pursuant to 5 ILCS 120/2(c)(1). A roll call vote was taken and the motion carried.

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Back in regular session, a motion was made by Rush and seconded by Helm to move forward with new position.

XIII. ADDITIONS TO AGENDA

There were no additions to the agenda.

XIV. CONFIRMATION OF NEXT MEETING

Clark stated that the next Administration and Finance Committee meeting was scheduled for Thursday, September 25, 2014 at 9:30 a.m. at the IRMA office.

XV. ADJOURNMENT

A motion was made by Rush and seconded by Helm to adjourn the meeting. A voice vote was called and the motion carried.

Submitted by:

Rita Boserup
Director of Financial Services & Administration

Approved by:

David Clark
Chair, Administration & Finance Committee