ADMINISTRATION & FINANCE COMMITTEE

Meeting Agenda

Thursday, November 14, 2013
IRMA Office
9:30 a.m.

PRESENT:	David Clark, Chair	Scott Anderson (via phone)
	Dan Nisavic	Andrianna Peterson (via phone)
	Kelly Amidei (via phone)	Spencer Parker
	Gerald Sagona	Katy Rush
ALSO PRESENT:	Rita Boserup	Larry Bush
	Mary Henzler	Darrell Langlois
	Brian Goding	
ABSENT:	Janet Gorman	John Prejzner

I. CALL TO ORDER

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

II. APPROVAL OF MINUTES – September 19, 2013

A motion was made by Rush and seconded by Nisavic to approve Administration and Finance Committee minutes of September 19, 2013. A voice vote was called and the motion carried.

III. FINANCIAL REPORTS

A. IRMA Financial Statements as of September 30, 2013
B. IRMA Investment Portfolio as of September 30, 2013
C. IRMA Payables for the period 9/1/13 – 10/31/13
D. IRMA Expense & Budget Comparison Detail as of September 30, 2013

Boserup noted that she has added a new report called Expense and Budget Comparison that she thought may be of interest to the committee. There is also a new report starting on page 44. Our current revenue and expense report only goes to year-to-date. The report on page 44 also has a variance and target for the full year. Boserup also stated that she has developed an Investment Portfolio Transaction Summary that is found on page 16 of the packet. The attachments to the report are the statements from the brokers. Rush noted that it is a lot of detail. Clark and Nisavic agreed and commented that if it is not a lot of work, they are interested in seeing them in the meeting packet.

A motion was made by Nisavic and seconded by Parker to approve the Financial Reports. A voice vote was called and the motion carried.

IV. AFC MEETING DATES FOR 2014

Clark stated that the 2014 Administration & Finance Committee dates were included in the packet and reminded everyone to mark their calendars for the 2014 year.

V. 3RD QUARTER INVESTMENT PERFORMANCE REPORT (GODING)

Goding gave a brief overview of the 3rd Quarter Investment Report, stating that not much has changed since the last quarter's report.

Goding referred to Exhibit I of the report that shows the status of all of the IRMA managers: those who are in compliance; those below expectations; those on alert; and those terminated. Goding noted that Siguler Guff Distressed Real Estate shows as below expectations; however, he stated that he didn't really agree with this. Mainstream has closed its door and has returned IRMA's money. Legg Mason Int'l Equity is on alert and we have been talking about their performance for quite some time. Goding stated that he has brought with him a search to replace Legg Mason, if that is what the committee decides to do.

Goding reported that the Total Fund's beginning market value was $143,801,448.15 and it ended the quarter at $150,508,324.67.

Goding reviewed the performance of the individual managers, noting that Legg Mason continues to underperform.

The last page of the report lists each manager with their fee schedule. Goding pointed out that this page doesn't include the fees from Marquette Associates, but will include that in the future.

Goding presented the search that Marquette Associates conducted for an investment manager to manage an International Large-Cap portfolio, replacing Legg Mason Int'l Equity. The committee reviewed performance comparisons between Harbor Capital, Northern Trust, Scout Investments and Wellington. Goding noted that Northern Trust was an index fund. Clark commented that he didn't have a problem going with an index fund and also noted that an index fund would have the lowest fees. A motion was made by Parker and seconded by Anderson to replace Legg Mason Int'l Equity fund with the Northern Trust Index Fund. A voice vote was called and the motion carried.

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Clark stated that the committee would move to the item on the Request for a Revenue Base Exclusion by the Village of Hinsdale.

Bush stated that there has been a lot of discussion between staff and the Village of Hinsdale regarding an amount related to an agency fund, and Darrell Langlois from Hinsdale was in attendance at today's meeting.

Bush stated that there are really two issues here – one is a specific request from Hinsdale for an exception from the bylaws and there was something that brought up an issue that has a much broader significance – the way that these agency funds have been handled and how they relate to the exclusion on bonds. The focus of the discussions has been what belongs in an agency fund and what doesn't and GAAP. Bush stated that he thought what we really should be focusing on is an exclusion that leads to these other questions. That is the exclusion for bond proceeds and borrowings. The basis for this exclusion was to avoid double counting of the revenues. In reviewing this, Bush stated that he thought what should be excluded is the repayment of the bond.

Boserup commented that we would not count refunding because that is just replacing dollar for dollar, but would count anything that has proceeds that would create a project where we would have exposure. Nisavic asked how you would handle the debt service reserves that are established from a bond issue and the income on those investments. Boserup stated that we haven't gotten into the technical details yet. The comment was made that if you change your philosophy on bonds, you are going to a have a problem. For instance, how are you going to carve out the repayment from water revenues? You will still have the double accounting problem theoretically. Boserup stated that perhaps we could do some kind of deduction for bond repayment.

Bush stated that in focusing on the agency account, Langlois has been properly saying that it should be excluded. However, from IRMA's risk management perspective, whether the money for a project comes from a bond or anywhere else, the risk is associated with that project. The way it is working now is that by excluding the bond and the agency fund, we are not collecting any premiums on a project that could have substantial exposures. This also gets into the consistency issue, which is Hinsdale's issue. Bush noted that he is talking about something that he doesn't fully understand -- why can you repay some bonds through an agency fund that is excluded and you can also repay bonds through a debt service fund that is not excluded? From GAAP, this makes sense. Langlois stated that it has to do with special service areas. Hinsdale's position is that if they follow the rules that IRMA has laid out and sold bonds for 100% of our special services area, rightly or wrongly that would have been excluded. Boserup commented that there is no dispute about that. Langlois stated that the transaction that they had would have been excluded if a bond had been utilized, rightly or wrongly, if we follow IRMA's formula right now. Hinsdale's position is that since we gave owners two weeks to not sell bonds, we don't want to have that trigger insurance premiums. Langlois stated that the issue about revenue base is almost secondary. To some degree, other special service areas (not bond issues) previously were excluded. If a bond was repaid through an agency fund, it would be excluded. Langlois stated that he was asking for the same treatment for the people that prepaid their bonds.

Bush stated that many times things are reported in the financial statements that may have been reported this way or that way. Staff has always gone with what is reported in the financial statements. Bush stated that everything Langlois said is accurate, but in the financial statements it was reported as revenue. Bush stated that clearly under the current bylaws, the way it was reported in Hinsdale's financial statements, it is not excluded. If it had showed up differently in their financial statements, it may have been excluded. One of the reasons why we use revenue base is because the financial statements are there and that's it. Sometimes it is unfair. The unfairness here is that there is a bond and IRMA is not calculating a contribution on it.

Langlois stated that Hinsdale doesn't do this all the time and he has learned about this during this year. If you follow GAAP, the tax collections from the special service areas show up as an addition in an agency fund. It is not revenue in a special revenue fund or a capital projects fund, so it doesn't show up as property tax revenue in the CAFR. Langlois stated that he only wants his special services area treated like everyone else's.

Bush commented that it would be an administrative nightmare if we have to start tracking bonds over a thirty year period for a thirty year bond.

Langlois commented that another scenario going forward from here could be a specific addition for a special service area. Most of the problem seems to be on how these special service areas are accounted for. This is not in the instructions and to some degree some members are not paying IRMA premiums on special service areas. Boserup stated that if it is listed in the agency fund as the word "addition" then she has no detail on that.

Bush stated that in regards to Hinsdale's situation, it is staff's position that we don't grant their request for a revenue base exclusion. Clark stated that he agreed; however, stated that he was somewhat sensitive to the fact that a community might look at a project and say to their homeowners that they can't offer them that option because of the insurance costs. Langlois agreed that you would almost always have to have that in your mind when sitting with your communities. Special service areas are either in or out. Currently, some are out. From Hinsdale's perspective, they would like to see all of theirs out. How IRMA goes forward maybe this is highlighting a problem that you could just have a special inclusion for special service area revenue.

Bush stated that in regards to the overall problem, the 2014 budget is done. We could look into this. What he is hearing that just eliminating the bond exclusion isn't going to work because it is too much of a spike, and trying to deal with that spike would be an administrative nightmare. Maybe the focus should be can we find a way to not allow the exclusion. Langlois stated he thought you would have to find a way to make it a specific inclusion. Bush agreed and said staff would take a look at this.

Langlois stated that one of the issues is that the GASB rules on special service areas have changed, but IRMA has not changed their formula. Bush noted that every 5-6 years, IRMA has reviewed their formula and suggested that perhaps this be done when the new Executive Director is in place.

Bush stated that the committee needs to vote on Hinsdale's request and take the direction to look at this issue in the future. This can be done by the Administration and Finance Committee and not necessarily an ad-hoc committee as has been done previously.

Clark stated that by consensus, the Administration and Finance Committee supports staff's interpretation of the revenue base formula in regards to Hinsdale's request for revenue base exclusion. Clark also requested that an item for the next fiscal year would be to review this revenue base issue with an auditor, specifically looking how members are reporting and whether or not there are certain things we need to look at.

VI. INVESTMENT CONSULTANT CONTRACT EXTENSION

A motion was made by Rush and seconded by Nisavic to approve the Investment Performance Contract Extension. Sagona asked whether there was any value in only extending it for one year. It was determined that the two year extension would be better for the incoming new Executive Director. Bush noted that it can be cancelled with a 30-day notice. A voice vote was called and the motion carried.

VII. OUTSOURCING – BYLAWS

Bush stated that we have talked about this item a lot and staff is presenting a draft for discussion. There were a number of points considered while drafting changes to the bylaws. Staff is recommending allowing for deduction of garbage fees paid to an independent contractor regardless of how the fees are collected. Also, allowing for deduction of other outsourced functions that meet certain conditions including: contractor's contract contains preapproved indemnity language or IRMA's suggested indemnity language; contract is not for construction; total value of contract is more than 5% of the member's revenue base at the time of application for deduction.

The committee discussed and suggested the following change to Section 3.03 Revenue Base, xii – to read as: "Ninety percent of the amount paid to independent contractors or other governmental entities (Service Provider) when the following conditions are met." The also suggested adding d) to xii to read as: "d) IRMA has approved in writing the request for a revenue base deduction at the time contract goes into effect."

A motion was made by Sagona and seconded by Nisavic to approve the changes to Section 3.03 – Revenue Base of the IRMA Bylaws with the amendments suggested by the Executive Board. A voice vote was called and the motion carried.

VIII. ADDITIONAL OPTIONAL DEDUCTIBLE

A motion was made by Rush and seconded by Nisavic to add a layer to the optional deductibles offered to members of $175,000. A voice vote was called and the motion carried.

IX. COMMUNICATION FROM IRMA'S FINANCIAL AUDITOR

Clark stated that this is the engagement letter from the financial auditors for information purposes only.

X. IRMA EMPLOYEE HEALTH INSURANCE

Bush explained that IRMA is proposing changing its renewal date to 12/1/2013, rather than the current renewal date of 1/1/2014, in order to keep its current plan for another year. The cost will be 4.1% higher than the 2013 cost. Bush noted that staff had budgeted for an 8% increase in the preliminary budget. A motion was made by Nisavic and seconded by Sagona to approve the Employee Health Insurance for 2014. A voice vote was called and the motion carried.

XI. 2014 FINAL BUDGET

Boserup reviewed several reductions to the preliminary budget that included: reduction of $29,930 in Training Revenue expected; reduction of $5,000 in Contractual Services for the investment consultant; reduction overall of $30,465 in the Member Education category: $29,600 from reduced NAPD training, $4,800 reduction in Workshops/Seminars, and a $3,975 increase in Accreditation Grant expense; and a reduction of $3,188 in premiums for Commercial Insurance-All Risk Property. Total reduction in the budgeted expenses is $38,653.

A motion was made by Sagona and seconded by Nisavic to approve the 2014 Final Budget. A voice vote was taken and the motion carried.

XII. 2013 POTENTIAL INTEREST INCOME CREDIT

Bush noted that we discussed this several meetings ago. The numbers have not changed as the liabilities and financial data are as of 12/31/12. Bush noted that staff is recommending a 2013 Interest Income Credit of $3,000,000 to $4,000,000. After a brief discussion, a motion was made by Rush and seconded by Sagona to approve a 2013 Interest Income Credit of $4,000,000. A voice vote was called and the motion carried.

XIII. EXECUTIVE SESSION

A motion was made by Rush and seconded by Nisavic to move into Executive Session to discuss the Executive Director's Performance Appraisal. A voice vote was called and the motion carried.

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XIV. ADDITIONS TO AGENDA

There were no additions to the agenda.

XV. CONFIRMATION OF NEXT MEETING

Clark announced that the next meeting of the committee is scheduled for Thursday, February 13, 2014 at 9:30 a.m. at the IRMA office.

XVI. ADJOURNMENT

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

Submitted by:

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Rita Boserup
Director of Financial Services & Administration

Approved by:

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David Clark
Chair, Administration & Finance Committee