ADMINISTRATION & FINANCE COMMITTEE
Meeting Minutes

September 22, 2016
IRMA Office
9:30 a.m.

PRESENT:	Jessica Frances, Chair	Elizabeth Holleb
	Eric Helm	Darrell Langlois
	Doug Haywood	Lynn McCammon
	Jason Bielawski	Barry Krumstok
	Larry Noller	
ALSO PRESENT:	Margo Ely	Rita Boserup
	Susan Garvey	Brian Goding
	Telly Panousis	
ABSENT:	Brad Bettenhausen	

I. CALL TO ORDER

Chair Frances called the meeting to order, roll was taken and a quorum declared. Boserup introduced two new members of the committee, Elizabeth Holleb from Lake Forest and Brad Bettenhausen from Tinley Park, who are replacing Gerald Sagona and Joe Mangan.

II. APPROVAL OF MINUTES: May 26, 2016

A motion was made by Helm and seconded by Bielawski to approve the Administration and Finance Committee Minutes of May 26, 2016. A voice vote was called and the motion carried.

III. FINANCIAL REPORTS

A. IRMA Financial Statements as of as of August 31, 2016
B. IRMA Investment Portfolio as of August 31, 2016
C. IRMA Payables for the period May 1, 2016 - August 31, 2016

Frances asked if there were any questions on any of the financial reports. Hearing none, a motion was made by Helm and seconded by McCammon to approve the Financial Reports.

IV. SECOND QUARTER INVESTMENT PERFORMANCE REPORT - GODING

Goding gave an overview of the second quarter investment performance report, touching on the market environment through the 2nd quarter. Goding stated that as of the publication of this report, unemployment continues to improve. The rates right now are at about 4.9%. Participation rates continue to improve. Inflation continues to be low.

Goding reviewed the Total Fund Composite, indicating that all investment managers are in compliance, meet expectations or exceeds expectations. The beginning second quarter market value was $185,557,291.87 and the ending market value is $184,675,573.28. Goding noted that Entrust, a Hedge Fund, hasn't been doing very well, and suggested that if they don't do better over the next several months, they should be put on alert.

Goding reviewed the investment manager funds and the fee schedule for each of them, indicating that the total investment management fees are $822,510 or 0.45%.

Goding stated that the total fund composite at the end of July 2016, is a little over $186 million.

Goding stated that at the last meeting another bucket that we could diversify to put assets in would be real estate. We tend to like the private real estate markets rather than the public real estate markets. Goding presented a study on real estate and the search that they had done. Marquette Associates presented three investment managers.

<u>Heitman, Heitman American Real Estate Trust (HART)</u>
The HART fund was formed in 2007 with the goal of bringing a core commingled fund option to the market place. Heitman has been involved in core investing since 1980 on behalf of clients directly. HART's investment strategy is to create a high quality, low-risk diversified portfolio of stabilized income-producing assets. The Fund focuses on infill locations in the major MSAs. HART differs from some ODCE managers with its consistent overweight to self-storage as well as focusing on medical office as opposed to traditional office.

Heitman is a limited liability company, 50% owned and controlled by Senior Officers of Heitman and 50% by an entity controlled by Old Mutual Asset Management plc ("OMAM") a New York Stock Exchange listed company.

<u>Morgan Stanley, PRIME Property Fund</u>
The Morgan Stanley PRIME Property Fund is a well-established & diversified core real estate Fund focused on high-quality office buildings, top tier super-regional malls, Class-A apartment communities and distribution warehouses in major metropolitan markets. PRIME will also venture outside of the four main property types and have exposure to development, self-storage, hotels and land. The majority of the properties are in properties over $100M in size. This does lend it to less volatility as larger and better class properties experience less pricing fluctuations. Debt is done at the fund and property level to offer greatest freedom for asset management.

<u>UBS Realty, Trumbull Property Fund (TPF)</u>
The UBS TPF is one of the three largest and longest standing funds in the core, open-end universe. With a disciplined, research driven approach, TPF is focused on the best assets in the strongest markets. The ongoing, long-term strategy of TPF is to produce attractive risk-adjusted returns by focusing on selective acquisitions, diversification, active portfolio management, and aggressive asset management. Diversification is pursued on many levels including geographic region, property type and economic sector. A hallmark of this fund is the low leverage. This has been consistent for the duration of the fund, not a new discipline.

Goding stated that Marquette is suggesting going with Heitman (HART) with asset investment of $10 million. After a brief discussion, a motion was made by McCammon and seconded by Helm to contract with Heitman for investment in the Heitman American Real Estate Trust (HART) contingent on whether any revisions to the Investment Policy need to be made. A voice vote was called and the motion carried.

Goding handed out the Asset Allocation Sheet for September 20, 2016. The current allocation is 52.6% Equity - 9.1 Alternatives and 38.3 Fixed Income. The suggested new allocation is 51.5% Equity - 9.1% Alternatives and 39.4% Fixed Income.

A recommendation was made by Goding to pull about $900,000 out of the EAFE Index Fund, 1/2 Million out of each the two Lazard funds and that should get us back to targets.

A motion was made by McCammon and seconded by Helm to pull $500,000 out of the Lazard Emerging Markets fund, $600,000 out of the Lazard Developing Markets fund, and $900,000 out of the EAFE index fund, and sell the $3 million from Loomis and invest that into the Northern Trust Short-Term Bond fund. A voice vote was called and the motion carried.

V. PERSONNEL

A. Hay Group Update

Ely reported that we had retained the Hay Group to do a compensation study last summer and first reported some recommendations to this committee last November. That went through several reiterations. Last June, the Board of Directors in Executive Session, discussed the salary grades and the salary ranges that are attached here in the packet. This will be the final public action to approve the salary grades and salary ranges. Frances noted that in the salary ranges, the Director of Training and Education was still listed. Ely noted that this would be changed for the Executive Board. A motion was made by Noller and seconded by Helm to approve 2017 salary grades and salary ranges recommended by the Hay Group. A voice vote was called and the motion carried.

B. Risk Management & Training Manager Position

A motion was made by Noller and seconded by Helm to approve the Risk Management & Training Manager Position. A voice vote was called and the motion carried.

C. Additional Staffing

Frances stated that staff is recommending the addition of two new employees; two full-time claims representatives, based on excessive claim counts and Claims Auditor recommendations. A motion was made by Noller and seconded by Helm to approve the addition of two full-time claims representatives. A voice vote was called and the motion carried.

D. 2017 Personnel Report

A motion was made by Noller and seconded by Helm to approve the 2017 Personnel Report recommendations: 2017 staffing levels, 2017 salary ranges, 3% merit increase for 2017, and .005% bonus program to recognize IRMA employees.

Helm asked what happened to bringing in a business analyst. Ely noted the position has been morphed into the Risk Management & Training Manager Position.

A voice vote was called and the motion carried.

VI. SUB-COMMITTEE ON DISCOUNTING LOSS FUND - UPDATE

Frances stated that the sub-committee is looking at taking $2 million of the Interest Income Credit that is anticipated for 2016 and utilizing that to stabilize and not increase the contribution for various organizations. This is more of a stabilizing mechanism, because in the past we have utilized our anticipated investment income, which is not necessarily the best formula.

Panousis noted that we will not be using $2 million, but up to $2 million. Right now in the budget we have $1.5 million. The reason we are using that is because we have been using investments to stabilize the contribution rate in the budget and that rate is the rate that the members get charged and proportionately gets distributed according to what contribution they pay. In order to lower that rate, we are going to use up to $2 million of the Interest Income Credit, which is $14,271,359 this year.

Ely summed up the recommendation as rather than using anticipated Investment Income in our budget as a methodology in keeping contribution rates lower, we should look at Interest Income Credit on an annual basis up to $2 million.

The Administration & Finance Committee concurred with this new methodology. Ely stated that we will be using this methodology going forward and will make it known to the membership.

VII. ESTABLISHING AN ARREST, PROSECUTION AND CONVICTION CONTINGENCY FUND

Frances stated that this is in reference to several communities having false conviction cases that are outlined in the Background section of the memo. Ely commented that we have seen an increase in false conviction cases (arrest, prosecution and conviction cases). When there is an exoneration of someone who has been in prison for some time based on newly discovered evidence, we are addressing the issue with this fund. When these cases are filed, up until about a year ago, the law was fairly clear on what the trigger date was for purposes of what year the insurance would cover. In the last couple of years the cases have opened that up to more options. Because of that, the way that we finance the cases is through claim year. So, up until a couple of years ago it was pretty easy when the exoneration occurred, which is the year that the claim was put in. Now though it is not so clear. It could be the year the arrest occurred, it could be the year the conviction occurred, it could be the year a coerced confession was elicited from an individual, or it could be the year of the exoneration. Based on all of those options, putting a claim in a particular claim year will have an impact on a membership pool that may be inappropriate.

Ely stated that the purpose of this is that it is a floating fund, a loan fund, and it would be out there while the case is pending. This would not preclude the possibility of supplemental assessments once the claim year is determined. It will also not have a reserve for purposes of indemnity, because until we have indemnity, we will not set a reserve. The reserves in this loan fund would only be based on the cost of litigation (defense budgets). Once the case is resolved and disposed of, the fund would be reimbursed from the appropriate claim year based on the disposition of the case.

Boserup noted that for 2016, we anticipate an interest income credit of approximately $14 million and we recommend that $3 million of this total be deposited in this new contingency reserve fund. The $3 million is being recommended since this is the pool's self insured retention for many years and, therefore, provides sufficient resources to defend these cases before excess or reinsurance should participate.

A motion was made by Krumstok and seconded by McCammon to approve the establishment of an Arrest, Prosecution and Conviction Contingency Fund. A voice vote was called and the motion carried.

VIII. ESTABLISHING A MEMBER OPTIONAL DEDUCTIBLE CREDIT FUND

Boserup commented that we are trying to get members to move to higher deductibles. The big concern in moving to a higher deductible is that if you have an adverse number of claims, you should actually have to pay the higher deductible. This would establish a fund, voluntarily by the member, to keep money on account with IRMA, so if they do get hit with an adverse number of claims, they do have funds to pay it. This would be funded through the optional deductible credit. We are trying to use this as an incentive to get someone to move to a higher deductible. So whatever the amount of their optional deductible credit is, they can basically pay that to us and we would keep that separate for them -- it's not pooled money. They would earn our investment return on the money, which right now is not quite 8%. When they need that money if they have higher deductibles, then they can pull the money out. So basically, it is an established reserve fund for people with higher deductibles.

Helm commented that it looks like this will be a benefit to current members with optional deductibles, but also further down it could be a strategy to help attract members.

After a brief discussion, a motion was made by Helm and seconded by Krumstok to approve the establishment of a Member Optional Deductible Credit Fund. A voice vote was called and the motion carried.

IX. REVENUE BASE REVISIONS

Boserup stated that she audits the revenue bases and goes back and forth with the members until we have an accurate revenue base. Boserup noted that in discussions with members she does get some push back on not allowing certain deductions or why can't we have certain deductions. Boserup noted that one of the things that Buffalo Grove mentioned was that they had a large big box store come in and they have a sales tax rebate agreement with that. Buffalo Grove will have to report the entire revenue that they receive in sales tax to IRMA. They do not get a deduction for the rebate that goes back. There is no additional risk to IRMA, but there is no deduction.

Boserup noted that she has listed all of the items in the memo that our members have mentioned in the past three to four months that they are concerned about. Boserup stated that we don't want to convene another ad-hoc committee on revenue base. So we are going to try and go through this with an individual vote on each item.

1) Investment income losses -- this came about because of IMET. A lot of members had to write down their investments. We include investment income in the revenue base. Investment losses are not allowed as a deduction. We are suggesting that we make this retroactive to the 2017 revenue base, if individual members let us know by October 31, 2016 that they want their revenue base adjusted.

2) Sales and other tax rebates -- IRMA collects the entire amount as revenue. For the members that rebate back to the paying agency there is no deduction. We have been told that members think this is unfair and that is why we are bringing this forward. Boserup stated that staff is proposing a deduction for tax revenues returned to the collecting entity. The committee asked for this to be better clarified and sales tax be defined in more detail. Walk us through this because there are so many ways of sharing rebates and the dollar amounts we are talking about here are huge.

   Boserup explained that other than the example of a big box store, another example is that there are tax incentives to bring a car dealership in. They collect the sales tax and rebate part of the sales tax back to the car dealership. Frances stated that they are not doing any enhancements -- it's basically a pass through.

   Ely stated that the high level discussion about this is that as municipalities continue to grow their revenues, that they are being penalized by IRMA because of our formula regardless of whether the revenue increase is tied to any increase in risk. So the specific example of a sales tax incentive agreement to build a Woodman's for example, the position is that the building of the Woodman's does not increase the municipalities risk at all, so the additional revenue from that Woodman's should not be part of the calculation, especially when it is through an incentive agreement. Ely stated that what she is hearing is that in a situation where you have a straight public improvement TIF and you have a rebate agreement for public improvement. How are you going to build public improvements? You are either going to issue bonds or you are going to have the developer pay for it. If you issue the bonds, then it counts as your revenue and it is additional capital in your municipality as opposed to an incentive agreement, where this would not be allowed to be captured. More streets in your municipality are tied to risk.

   After a brief discussion by the Committee, Ely stated that actually this could be tied to risk. So the sales tax incentive agreements or any incentive agreements are tied to the developer. If this is the consensus, Ely stated that she recommend that this particular exclusion be denied by the committee. The committee concurred.

3) Monetary grants and other types of revenue that are received by the member and are passed on to another non-member entity and are not for construction or infrastructure -- under the current system, the municipality has to report the grant as part of the revenue base. Staff is proposing that the amount of the grant and other miscellaneous types of revenue that are passed through to the entity be allowed as a deduction from the revenue base, as long as the grants and revenue are not for infrastructure or construction.

   After a brief discussion, Ely stated that we need to go back to whether it increases risk. Same thing when we are building a road -- a better road is going to decrease risk. Maybe it is about building new infrastructure -- building new buildings with sprinkler systems. Obviously, the property coverage line is going to increase a little bit with the appraisals of the assets, but overall the revenues to build that are decreasing risk. Boserup stated that we could take the section out that says not for infrastructure or construction. Boserup suggested that we change it to say not for the member's infrastructure or construction.

4) Grants received by the member who is the lead agency for a group, up to the amount applicable to the other entities involved, provided the grant is not for infrastructure or

construction -- Boserup stated that this came up due to a revenue base Appeal from the Village of Homewood. Homewood took the initiative to apply for a MABAS grant and received roughly a $2 million MABAS grant to buy radios for the MABAS group. Out of the $2 million, Homewood only retained about $94,000 worth of radios, but because of the way the revenue base is written, they have to pick up the entire $2 million. This is specifically for the purchase of equipment, which is a little bit different than for monetary grants. Do we allow an exception for lead agency purchases? A committee member suggested using the 90% rule. If 90% of the grant is passed onto other agencies, then you would be able to get the exclusion. This will probably be on a case-by-case basis and you will have to have dialogue with people when they take that deduction. This would take care of the Homewood situation.

5) PPRT and any revenue "take backs" -- the State of Illinois has made errors in calculating PPRT revenue distributions to our members. Boserup stated that there is a little concern depending on how a member does the accounting for the error for the PPRT. If it shows up as a negative revenue, then it can't be deducted. The committee concurred that this one should be taken out, and decided that we really should be doing these types of exclusions only when they are significant.

<u>Adjustments to Existing Bylaws Items:</u>

1) (viii) include recycling and yard waste as allowable deductions as long as the same refuse criteria are met. Boserup stated that this was for clarification purposes.

2) (i) include storm water processing charges for services as an allowable deduction, similar to the water/sewer sales deduction. Boserup noted that the amount is 50% of the revenue. The recommendation is to add storm water processing charges. The general consensus of the committee was not to change this.

3) (iv) include the interest expense deduction for water/sewer funds. Boserup stated that she could not come up with any documentation as to why these two funds are excluded from the interest expense deduction, and is, therefore recommending that they should be allowed. The committee concurred that this could be left in.

Boserup noted that another suggested addition to the revenue base bylaws is being proposed. Recently we have had 3 members change from a 4/30 fiscal year to calendar year reporting and another will change for the 2018 revenue base. We are proposing a section to clarify how the revenue base is calculated for this change.

Frances stated that this item was up for a vote. Boserup noted that the only change that is time sensitive is the one on the Investment income losses. The rest of them we can rewrite and bring back to the committee. Frances agreed to table all the rest of the changes excluding 1). A motion was made by Langlois and seconded by Bielawski to approve the addition of the Investment income losses to the revenue base bylaws. A voice vote was called and the motion carried.

X. HIGH DEDUCTIBLE PACKAGE FOR IRMA MEMBERS

Ely explained that at an Executive Board meeting in August this was discussed. Then staff brought this to the Membership Relations Committee. The Membership Relations Committee directed that we bring this forward to the Administration & Finance Committee for consideration.

Ely stated that the idea here is that as we are engaging in member recruitment, we have found that the IRMA product is kind of rigid and that we don't have a lot of flexibility as we have discussions with large, potential members who want to have a large deductible. Ely stated that we have tried to recruit Glenview and Lombard and are in the process of discussions with Arlington Heights right now. We are looking for some flexibility in those discussions. We think that the high deductible for those members who go to $100,000 or more, that there should be a high deductible package available for them.

Ely stated that the potential components of a high deductible package include:

1) A reduced initial reserve contribution -- currently, new members are required to pay their first year contribution as well as 50% of that number as a reserve. We are recommending that new high deductible members only pay a 25% initial reserve. This would be available only to those members who are at a $100,000 deductible or higher.

2) Optional Deductible Credit Contribution to Optional Deductible Claim Reserve Fund -- for every deductible above $2,500, the member receives a credit. This incentive would allow for a member to deposit the credit with IRMA in an Optional Deductible Claim Reserve Fund, which would grow at the IRMA investment rate.

3) Higher Excess Liability Limits -- high deductible members would be entitled to excess limits at a higher level than the pool; i.e., $15 million instead of $10 million.

4) Selection of Counsel -- high deductible members would be allowed to use counsel for their IRMA cases outside of the IRMA panel attorneys. Attorneys would be screened for experience and skills and would have to comply with the IRMA litigation guidelines and fee schedule.

The committee talked about using their Labor Counsel or their Corporate Counsel. Ely pointed out that the attorneys will need to be screened and would have to comply with the IRMA litigation guidelines. Ely noted that the Membership Relations Committee added $9,000 to the budget for member recruitment and that could be potentially for us to provide extra training to these potential members. Ely stated that she has invited everyone we are trying to recruit to the Summit at no charge. Ely stated that these would also be for current members who are at a higher deductible.

A motion was made by Helm and seconded by Krumstok to approve the new High Deductible Package for New IRMA Members. Frances stated that we should take the word "new" out before IRMA Members. A voice vote was called and the motion carried.

XI. REVENUE BASE EARLY SUBMITTAL UPDATE

Boserup stated that this was for information only. Boserup explained that in 2015 there was a trial program to encourage early submittal of the members' revenue base worksheets in order to spread the worksheet review work out over several months instead of all in August. The program was well received and staff will continue with the early submittal program.

XII. 2017 PRELIMINARY BUDGET

A motion was made by Krumstok and seconded by McCammon to approve the 2017 Preliminary Budget.

Frances asked if there were any questions. A question was asked regarding the increase in the health insurance. Ely stated that we are a small group and have not had a substantial increase in several years. Boserup stated that the increase is mainly for one group and that is single with children. Boserup stated that she has spoken with Dave Cook at IPBC and he is not sure we meet the requirements to join that group. Boserup stated that she would be talking to Cook regarding this. Helm asked Boserup to look into the quotes from Sikich to make sure we are getting competitive pricing.

A voice vote was called and the motion carried.

XIII. EXECUTIVE SESSION

- **Review/Discussion of May 25, 2016 Executive Session Minutes**

Ely stated that if no one had questions or wanted to discuss the Executive Session Minutes, they could be approved in open session.

A motion was made by Langlois and seconded by McCammon to approve the Executive Session minutes from May 26, 2016. A voice vote was called and the motion carried.

XIV. CONFIRMATION OF NEXT MEETING

Frances announced that the next meeting of the Administration & Finance Committee would be held on Thursday, November 17, 2016 at 9:30 a.m. at the IRMA office.

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Goding stated that he had made a recommendation on the outside allocation to take $500,000 from the Lazard emerging markets and take $500,000 from developing markets and $1 million from EFFA. Goding stated that when he looked at his notes, it would be better to do $500,000 from Lazard emerging markets, $600,000 from developing markets and $900,000 from the EFFA index. Frances stated that we would let the original motion reflect this modification.

XV. ADJOURNMENT

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

Submitted by:	Approved by:
Rita Boserup	Jessica Frances
Director of Financial Services & Administration	Chair, Administration & Finance Committee