

BOARD OF DIRECTORS
Meeting Minutes

Wednesday, October 19, 2016
Westbrook Corporate Center Conference Room
9:30 a.m.

I. CALL TO ORDER

With the absence of Chair Gargano, Chair-Elect Clark called the meeting to order. Ely called the roll and a quorum was declared.

II. CONSENT AGENDA

Clark stated that the consent agenda items were contained in A, B & C. Those items with a check mark require approval and the other items are for informational purposes. A motion was made by Irvin and seconded by Wachtel to approve the consent agenda. A voice vote was called and the motion carried.

A. The following reports, for information only, can be found in the Member Section of the IRMA website – <http://www.irmarisk.org/Publications/IRMA-Reports.aspx>

- IRMA Financial Statements
- IRMA Investment Portfolio
- IRMA Payables
- Quarterly Investment Performance Report
- Membership Recruitment Report
- Claims Operational Report
- Quarterly Claims Analysis Report
- Risk Management Services Report
- Training & Education Quarterly Report
- Quarterly Member Participation Report

B. ✓ Approval of Minutes of June 15, 2016**C. Standing Committee Documents****Membership Relations Committee**

- Workers' Compensation Focus Program - 2nd Quarter Reports
- Discussion on IRMA's Growth Philosophy
- ✓ Proposed Revision to Member Participation Policy

Training & Education Committee

- Proposed 2017 Training Programs

Coverage, Claims & Litigation Committee

- Draft of Early Intervention Policy
- ✓ Claims Audit Report
- ✓ Revised Litigation Guidelines

Administration & Finance Committee

- Sub-Committee on Discounting Loss Fund - Update
- Consideration of a New High Deductible Package for New IRMA Members

- Homewood Revenue Base Appeal

Executive Director/Staff Report

- August 9, 2016 Special Meeting Follow-Up

Ely stated that she hoped everyone is enjoying the new name tags distributed to those in attendance and asked that following the meeting, the nametags be returned so we will be able to use them for the next meeting.

Ely reported that we had good attendance at the October 11th Education Summit and thanked everyone who attended.

Ely mentioned that on the consent agenda, the Board approved the Early Intervention Policy. Ely stated that we have had this program for many years and find the program to be very beneficial. If you have some liability or employment issues in your municipality, we are here to help. You don't have to wait for the lawsuit, you don't have to wait for the claim and we encourage you to call us.

III. CHAIR'S REPORT - GARGANO

A. Changes in IRMA Delegates/Alternates

Clark welcomed the following Delegates/Alternates:

Jason Paprocki, Delegate - Oak Brook
Diane Maciejewski, Alternate - Oak Brook
Angela Kniesel, Alternate - Carol Stream FPD
Doug Gibson, Delegate - Lake Zurich
Kyle Kordell, Alternate - Lake Zurich

B. Announcement of Formation of Nominating Committee for 2017 Officers (Chair - Irvin)

Irvin stated that if anyone is interested in serving on the Nominating Committee they should contact him. Irvin indicated that Clark was willing to serve on the committee, but he was looking for a few more people.

IV. ACTION ITEMS

Clark indicated that we would now move on to the action items

A. Special Governmental Service District Guidelines Revisions

Wachtel stated that this is consideration of the proposed Special Governmental Service District Guidelines Revisions. Wachtel noted that you might recall that we discussed this item earlier in the year in regards to the LTACC membership application. Both the Membership Relations Committee and the Executive Board have recommended the elimination of the public safety dispatch agency membership guidelines. These date back to 2005. With the application of LTACC, both the Membership Relations Committee and the Executive Board discussed their relevance with regard to having them within the membership guidelines.

A motion was made by Wachtel and seconded by Clark to approve the revisions to the Special Governmental Service District Guidelines. A voice vote was called and the motion carried.

B. LTACC Membership Application

Wachtel stated that this is for membership for the Lyons Township Area Communication Center, which is made up of the Village of LaGrange Park, the Village of LaGrange and the Village of Western Springs, all of whom are IRMA members. In the packet is a summary of their site visit conducted by IRMA in accordance with their membership application. As individual communities, all three have excellent claims experience with regard to dispatching service and are excellent IRMA members. Both the Membership Relations Committee and the Executive Board have recommended approval of their application effective March 1, 2017 when their dispatch center goes live.

A motion was made by Wachtel and seconded by Halik to approve the membership application of LTACC with an effective date of March 1, 2017. A voice vote was called and the motion carried, with the three members of LTACC abstaining.

C. 2017 Coverage Renewal

Cedillo stated that the memo on page 146 of the packet gives a summary of the 2017 Excess/Reinsurance Coverage Renewal with an overall decrease of 2.3% in premium cost from 2016. There are some additions to the liability coverage for expanded Cyber Risk Coverage and some Cyber Risk Response Services for all members as well as new Drones/Unmanned Aerial Systems(UAS) coverage. There are also two options offering higher liability limits at either a \$2 million or \$5 million option for members choosing to increase their overall limits to either \$12 million or \$15 million based on a discounted/pooled revenue base pricing rate.

Cedillo stated that Dan LeTourneau would be providing an overview of the details of the 2017 Excess/Reinsurance Coverage Renewal.

LeTourneau noted three new areas. The expanded Cyber Risk program goes from optional to a program included for all members effective November 1, 2016. Over the past year, we have had several members inquire about coverage for Drones/Unmanned Aerial Systems(UAS). We have decided to include both liability and property coverage for UAS that meet legal and regulatory requirements. In regards to the excess liability options, the actual pricing for each member is listed on page 154-155 of the meeting packet.

LeTourneau provided the following summary of the 2017 Proposed Excess Reinsurance Program.

2017 Proposed Excess Reinsurance Program Summary

| Coverage | Carrier | Exposure | 2017 Rates | 2017 Premium | 2016 Premium |
|----------------------|----------------|-----------------|-------------------|---------------------|---------------------|
| Liability (2M xs 3M) | Great American | Revenue - 1.25% | Flat | \$522,347 | \$529,000 |
| Liability (5M xs 5M) | Munich Re | Revenue - | Flat | \$475,969 | \$482,073 |

| | | | | | |
|-------------------------|-----------------|-----------------------|------------|-----------------|-----------------|
| | | 1.25% | | | |
| Workers' Compensation | Safety National | Payroll < 1% decrease | Flat | \$585,050 | \$586,181 |
| First Party Property | Hartford | Values < 1% decrease | -5% | \$627,672 | \$665,513 |
| Crime | Travelers | N/A | Flat | \$56,049 | \$56,270 |
| Boiler and Machinery | Travelers | Values < 1% decrease | -4% | \$45,882 | \$48,192 |
| PO Bonds | Travelers | N/A | N/A | \$7,234 | \$7,141 |
| Cyber Risk (New) | HSB/IRMA | Revenue | N/A | \$45,387 | Optional |

| | | |
|----------------------|--------------------|--------------------|
| Total Premium | \$2,365,590 | \$2,374,370 |
|----------------------|--------------------|--------------------|

A motion was made by Cedillo and seconded by Frances to approve the 2017 Excess/Reinsurance Coverage Renewal effective 11/1/16 as presented. A voice vote was called and the motion carried.

D. Establishing a Members Optional Deductible Credit Reserve Fund

Frances reported that this item provides for the creation of a new fund for members that elect optional deductibles, allowing their optional deductible credit payments to be held by IRMA for the member's future insurance needs. Participation in this fund is strictly voluntary and does not impact a member's right to choose and change their optional deductible each year. Frances stated that funds would earn investment income at the same rate as IRMA earns on all of its investments, which is allocated at the end of the fiscal year. For investment allocations, the members deductible fund balance would be the average balance of the four quarters as of the last day of March, June, September and December. Frances stated that both the Administration & Finance Committee and Executive Board concurred with the recommendation to allow for a Member's Optional Deductible Credit Reserve Fund.

A motion was made by Frances and seconded by Clark to approve the establishment of a Members Optional Deductible Credit Reserve Fund.

The question was raised whether IRMA would be doing an analysis for individual members of what their reserve fund would look like depending on what deductible was chosen. Boserup stated that she could run individual analysis if a member wanted it and they should contact her if they wanted the analysis run.

A voice vote was called and the motion carried.

E. Personnel

Hay Group Position Grades and Salary Ranges

Frances reported that this process started over a year ago with regards to various position grades and salary ranges. This has been discussed on several occasions by the Executive Board, the Administration & Finance Committee and the full Board of Directors. Based on feedback, the final ranges are presented on page 160 of the

meeting packet. A motion was made by Frances to take the motions under Agenda E as omnibus rather than individual votes.

Risk Management & Training Manager Position

Frances stated that this is a downgrade to the Director of Training & Education position to Risk Management & Training Manager. This will have a positive impact on the budget of approximately \$60,000. This particular position will bridge the gap between claims and risk management in order to make sure that training programs are targeted to identified losses. The salary range for this position is between \$76,052 and \$119,543, which is in line with the appropriate salary range provided by AGRIP.

Additional Staffing

This item refers to two new claims representative positions based on current excessive claim counts and the claims auditor recommendation. Frances pointed out the org charts on page 173 and 174, which are very helpful in identifying the current case loads and the proposed case loads. The salary range for each position is \$43,309 - \$64,964. For purposes of the 2017 budget year the financial impact of the two positions with benefits is approximately \$160,000. With the retirement of a director this year, the IRMA personnel budget will see a significant savings that offsets these costs to some degree.

2017 Personnel Report

Frances stated that this report contains the 2017 staffing levels, the 2017 salary ranges, a 3% merit increase for 2017 and a .005% bonus program to recognize IRMA employees. This report was approved by both the Administration & Finance Committee and the Executive Board.

There was no objection to taking the vote as omnibus. Frances' motion was seconded by Halik, a voice vote was called and the motion carried, approving all items under E. Personnel as presented.

F. Establishing an Arrest, Prosecution and Conviction Contingency Fund

Frances stated that the need for establishing this kind of fund is based on cases that are referred to as arrest, prosecution and conviction cases. There is an increase in this type of case and with a false conviction case, there may be a question as to what coverage year is triggered and what year the funds would be drawn from. With the establishment of this fund, those monies would be drawn upon this fund until settlement of what particular year the claim falls under and then this fund would be repaid. This would just be fronting the money for those particular claims where you have that scenario, after which the money is replenished.

Frances stated that for 2016, we anticipate an interest income credit of approximately \$14 million and we recommend that \$3 million of that total be deposited in this new contingency reserve fund. Ely added that this is a loan fund and is a loan fund only for the defense of these cases and is not to help fund any indemnity.

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

G. Revenue Base Bylaw Revision

Frances stated that this has two pieces to it. First the bylaws and then the agreement to exclude IMET gains and losses until the IMET litigation is concluded and we can figure out how much has been lost per community.

With discussion on the revenue base, it was decided that the bylaw change be made with respect to fiscal year. The change would read, "If a member changes its fiscal year, both the short year and following year will be averaged together to come up with the revenue base. For example, a 4/30 year end member switching to a calendar year would have an eight month financial report ending 12/31 and a subsequent full year financial report ending 12/31. A revenue base worksheet would be prepared for each financial report, the totals added together, and 60% of the amount used for the final revenue base (12 months divided by 20 months = 60%)."

Ely reported that what the Executive Board is recommending is that the IMET gains and losses be excluded from the revenue base; however, this does not require an amendment to the bylaw since it is a one-time issue. The Executive Board directed that the Board of Directors be presented with an opportunity to suspend the rules and authorize an IMET exclusion from the revenue base. The Executive Board did approve the bylaw revision related to the change of fiscal year.

A motion was made by Frances and seconded by Irvin to suspend the rules and allow members to exclude IMET gains and losses from the revenue base.

Gorman stated that she would have to vote no on this as she didn't know what the impact would be on their fund. Boserup replied that there is no impact on the pool for IMET. When we get to the budget, it will end up in a contribution number. It will not change because of IMET. It's just the distribution between members based on revenue base; how much each member will pay. Right now the IMET losses are not allowed as a deduction, so when you have your IMET increases, we include that in the revenue base. Now that the IMET has losses, you are not allowed to deduct from your revenue base. This is more about fairness. A lot of our members were in IMET. We are asking members to put their pooling hat on even if you weren't in IMET to allow this deduction for all IRMA members. Gorman asked if she wasn't in IMET would her contribution go up. Boserup stated that it more than likely would. Ely stated that the Executive Board made this a vote where we are suspending the rules, rather than an amendment to the bylaw, is an acknowledgement that the IMET situation is attributable to fraud and because it is still being litigated and the numbers aren't going to be known until the litigation is over.

A roll call vote was called and the motion carried to suspend the bylaws.

Clark stated that the next vote would be to consider the IMET exclusion as a procedural matter without amending the bylaws. A motion was made by Irvin and seconded by Frances to consider the IMET exclusion as a procedural matter without amending the bylaws. A roll call vote was called the motion failed.

A motion was made by Halik and seconded by Frances to re-establish the 2/3 bylaws vote. A roll call vote was called and the motion carried.

H. 2017 Preliminary Budget

Frances stated that the preliminary member contribution rate based on the five-year average revenue base for 2017 is \$2.256, the same as 2016, due to the use of \$1.5 million as a rate stabilization from the interest income credit. Also, it should be noted that the personnel cost for health insurance did go up with an estimated 19% rate increase.

A motion was made by Frances and seconded by Irvin to approve the 2017 preliminary budget. A voice vote was called and the motion carried.

V. EXECUTIVE SESSION

A motion was made by Irvin and seconded by Donahue to move into Executive Session to discuss matters of pending litigation pursuant to 5 ILCS 120/2(c), 11. Roll was called and the motion carried.

VI. CONFIRMATION OF NEXT MEETING

Clark reported that the next meeting of the Board of Directors was scheduled for Wednesday, December 14, 2016 at 9:30 a.m. at Westbrook Corporate Center Conference Room.

VII. ADJOURNMENT

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

Submitted by:

Approved by:

Margo Ely
Executive Director

David Clark
IRMA Chair-Elect