



Committee reviewed the members currently on the Watchlist. The Village of Park Forest is in their sixth year on the Watchlist. They were told to stay in IRMA they would have to increase their deductible to \$100,000, which they did. The Village's five year ratio is under 100% for the fourth straight year at 94.05%. The Village has reduced its incurred losses from \$1,104,587 in 2010 to \$409,219 in 2011, and continues to implement improvements in their risk management program. Coren reported that the Membership Relations Committee is recommending that the Village of Park Forest be removed from the Watchlist for 2013.

Coren reported that the Village of Oak Brook and the Village of Hazel Crest are also on the Watchlist; however, they no longer meet the criteria for the Watchlist, so they will come off for 2013.

Coren also noted that several communities will be receiving advisory letters, as their five-year claims to loss fund contribution ratios exceeds 100%.

A motion was made by Irvin and seconded by Peterson to accept the 2012 Claims to Contribution/Watchlist Report. A voice vote was taken and the motion carried.

## **2. 2012 Summer Internship Program**

Coren explained that this is the third year that we will be utilizing the services of an intern, and this year we expanded the program to two interns. The memorandum in the packet outlines which members will be utilizing the services of the interns for this year. These members were identified using their IMAP rating and their claims to contribution percentage.

Coren noted that the Membership Relations Committee meeting discussed future intern programs and agreed with staff's recommendation to revise the program to allow members to fill out an application to apply for the use of a summer safety intern. The application would require members to identify specific risk management tasks with deliverables. The application would be submitted to the Membership Relations Committee for review with staff recommendations for final recommendation.

## **3. 2013 Property Appraisal Proposal**

Coren stated that when staff took a look at going out for bid on this contract, they found that any new appraiser that came in would want to re-appraise all the buildings for all the members, and completing that task would be very time consuming and costly. Staff went to Marshall & Stevens to see if they would be willing to update the current appraisals, re-evaluate some of the more costly buildings, and then with new buildings have them appraised at a certain rate over the next five years. This would keep us from having to re-appraise every single building.

LeTourneau stated that this would be for next year's appraisal budget. However, he was planning to have them start this December to be able to utilize any remaining budget from this 2012 to reduce the 2013 cost.

A motion was made by Irvin and seconded by Malinowski to approve the 2013 Property Appraisal Proposal of Marshall & Stevens for a five-year term. A voice vote was taken and the motion carried.

#### **4. Legislative Update**

Garvey reported that the eavesdropping legislation failed, but is not completely dead. Representative Nekritz has indicated that she is going to bring it back.

With PSEBA, the IML has come back very recently and said they don't want to concentrate on any of the other changes. They just want to go after the definition of catastrophic injury. IRMA's lobbyist, Chuck Vaughn, has indicated that this may come up in the fall, but the probability is very low so it looks like it will be heading into the spring.

Garvey stated that attached to the Legislative Update memorandum is a document from Ancel Glink about the anti-pooling legislation. They are suggesting and asking that local governments who are part of pools put these resolutions in place, so we have all the information gathered and if it comes up again then we have packets of information from all the pools that we can send to the legislators, so they are more informed and don't just legislate something they don't understand. Velkme asked when members should start working on this. Garvey suggested that members start working on this now. Bush stated that over the next several months would be fine, as nothing is really expected to be brought up in session this fall.

### **B. TRAINING & EDUCATION COMMITTEE – PETERSON**

#### **1. Announcement of Annual Risk Management & Safety Initiative Program Awards**

Peterson reported that the 2011 Outstanding Risk Management Performance Winners were: Village of Westmont, Large Member Category – to receive \$1,500 and a plaque; Village of Riverside, Small Member Category – to receive \$1,500 and a plaque; and Winfield Fire Protection District, Special District Category – to receive \$1,500 and a plaque.

Peterson reported that the Training & Education Committee reviewed the submissions for the 2011 Outstanding Risk Management/Safety Initiative Program and judged submissions on cost effectiveness, originality of approach, transferability between communities, and the ability to address the current need to reduce loss exposures. The committee awarded 1<sup>st</sup> Place to the City of Lake Forest Public Works Department for their Pier Spud Removal Tool and they will receive \$1,000 and a plaque. The Village of LaGrange will receive the 2<sup>nd</sup> Place award for their Fire Department's Back/Safety Prevention program and will be awarded \$500 and a plaque.

Peterson noted that all awards would be given out at the upcoming Board of Directors meeting.

**2. Update on use of Autobahn for Driver Training**

Peterson reported that due to multiple cancellations by the Autobahn with dates for NAPD Driver Training, IRMA pursued an option that was offered through Stickney Police and Fire to use Hawthorne Race Course. The first NAPD Driver Training is being held today at Hawthorne Race Course. Staff will be evaluating the possibility of conducting Public Works and Fire training at this new site.

**C. COVERAGE, CLAIMS & LITIGATION COMMITTEE – GARGANO**

**1. Coverage Clarification – 1<sup>st</sup> Party Property – Watercraft**

Gargano reported that this is a clarification to the 1<sup>st</sup> Party Property coverage on watercraft to apply to a watercraft when it is both in and out of the water. LeTourneau commented that it was always our intention to cover the watercraft whether in or out of the water, but it was determined that the coverage wording could be interpreted only to apply to a watercraft out of the water.

A motion was made by Irvin and seconded by Peterson to approve the clarification to the 1<sup>st</sup> Party Property coverage document on watercraft. A voice vote was taken and the motion carried.

**D. ADMINISTRATION & FINANCE COMMITTEE – CLARK**

**1. Actuarial Report – 12/31/11**

Clark explained that this report is used to determine loss reserves from the 2011 financial reports. Clark stated that item discussed primarily at the Administration and Finance Committee meeting was the preliminary rate for 2013, being a .22% or a half of a penny increase from the existing rate. Clark commented that he thought that some of the trend information in the report was interesting and referred to page 59 where the severity trends are increasing, but the frequency trends are decreasing, which is a good thing. Clark noted that the preliminary rate will be looked at again in the fall as part of the budget process.

A motion was made by Irvin and seconded by Coren to accept the Actuarial Report. A voice vote was called and the motion carried.

**2. 2011 Audited Financial Report**

Clark stated that the auditors report that, in their opinion, the financial statements fairly present in all material respects the financial position of IRMA. Clark referred to page 12 of the report that shows that IRMA finished 2011 with an operating income of a little over \$2 million.

Clark reported that the Administration & Finance Committee also went through and discussed Segregation of Duties.

Clark reported that there was one item of note from the auditor concerning a member not signing off on their contribution statement; however, this has been corrected and going forward should not be a problem.

Irvin asked where we were with the contract with this auditor. Vesecky noted that we had a five-year contract with them and then we renewed it for another five years. Vesecky stated that we are audited by people out of Springfield and they have people in insurance as well as municipal auditors. It has worked out very well for us as they have both sides. Clark also brought up the fact that there is some rotation with the people who are actually coming out and doing the work. They also indicated that if we wanted to change out a partner, we could do that.

A motion was made by Coren and seconded by Burke to accept the 2011 Audited Financial Report. A voice vote was taken and the motion carried.

### **3. 2012 Potential Interest Income Credit**

Clark stated that last year's Interest Income Credit was \$6 million. The maximum Interest Income Credit for 2012 will be about \$3.2 million. The Administration and Finance Committee will make their final recommendation this fall. We just wanted to give the membership a heads-up on what they might expect.

## **V. EXECUTIVE DIRECTOR/STAFF REPORT**

### **A. RFQ for Panel Counsel**

Bush reported that in the packet are the draft RFQs for liability and workers' compensation attorneys. Bush stated that if anyone had any comments that he would be interested in hearing them. Bush noted that we do need to discuss the committee who is going to evaluate the RFQs and also who we are going to send the RFQs to.

Bush explained there are a lot of attorney firms out there looking for work, but we would like not to have to evaluate numerous proposals. We do not intend to advertise unless directed to do so. Bush asked whether we should go to the entire Board to ask if they want to recommend someone. The consensus of the Executive Board was that we should go to the full Board. Bush stated that we have had attorneys who have written to us and asked to be included if we go out again, and we will send an RFQ to all those firms that have contacted us. One of the key things in the RFQ that we want to make sure we have consensus on is that we think one of the most important criteria is that attorneys have trial experience with cases that have gone to verdict.

Coren asked how many attorneys we have now. Bush noted that we have six in liability and three in workers' compensation and really want to stay at about that number, so they have enough volume to support the rate.

Bush stated that the next question is that he believes the Executive Board wants some kind of member involvement in the evaluation process. Do we want to ask for volunteers? Velkme asked if there would be a separate committee. Garvey stated that staff talked about a sub-committee of the Executive Board who would participate in the interviews with the staff – two or three Executive Board members. Garvey explained that staff would do the pre-qualification and recommend who should be interviewed.

Malinowski, Gargano and Coren volunteered to be on the committee. It was suggested that perhaps Bridget Wachtel would like to sit on the committee. Gargano noted that we could contact her. It was suggested that at the Board of Directors meeting, it can be relayed that we already have three members on the committee and are looking for one or two more volunteers to complete the committee.

Irvin stated that he had read through the RFQs and commented that they are very thorough. Irvin noted that although staff wants to keep the number of attorneys on the panel to eight or nine, he did like the idea of having a specialty firm, i.e., zoning, to add to the toolbox.

Bush stated that the committee will meet to review the evaluation criteria prior to conducting interviews. Gargano mentioned developing a score template to be used in the evaluation process.

## **B. Use of Municipal Counsel in Litigation**

Bush stated that this has been an issue for many years and we refined it and tried to clarify things. There are actually two different issues – one where the municipal counsel is on the IRMA panel of attorneys and one where they are not.

Bush stated that our consistent past practice (although there have been exceptions) has been if there is a lawsuit and there is covered and non-covered counts, IRMA will provide an attorney to cover all counts under the Unified Defense Amendment, and if the municipality wants to have their attorney involved, it would be solely at their cost. We now are recommending that when the municipal attorney is not on the panel, there is always an IRMA attorney assigned and will take the lead. However, if there are specific tasks that it makes sense for the municipal counsel to do because it is more effective and efficient, IRMA will pay for those. There will be a meeting up front to determine what tasks there are that it makes sense for the municipal attorney to handle and at what cost. If it makes sense, then IRMA will pay for the municipal attorney.

In a case where the municipal attorney is on the IRMA panel, an IRMA attorney would be assigned to review the case to see if there is any kind of conflict. If there is a conflict, we would discuss that and possibly assign an IRMA attorney. This would be evaluated on a case-by-case basis and if there really is not a conflict, we will allow the municipal attorney to continue with the case under our guidelines and our rates.

Bush noted that there was a discussion on the rates. If we have the specific task situation, that municipal attorney does not have the volume that the IRMA attorneys have to encourage them to have a lesser rate. This is something that we will continue to look at.

Bush suggested that this whole issue not be brought to the full Board until we go through this whole process with the attorneys because we may just learn something during the interview process, especially on the rates. We had talked about developing a different higher rate that we would pay municipal attorneys across the board. It might be higher than what we pay our panel counsel, because they don't have the volume of cases. Bush stated that we can come to the full Board with final recommendations on this when we go to the full Board with recommendations for the counsel panel.

Bush asked if anyone had any comments on this. Irvin stated that he thought the recommendations were great and agreed that we should wait until we get through the interview process for panel counsel to make a recommendation to the full Board. Gargano noted that the memorandum addresses the discussion that was had by the Coverage, Claims & Litigation Committee and thanked Bush for putting it together.

### **C. Organizational Planning Workshop**

Bush stated that before he went through this item, he wanted everyone to think about what would be next. Do we go right to the Board with something? Do we have to have another meeting perhaps with the same group? Do we need a workshop that is opened up to a lot of members?

– Board Planning Report

Bush stated that staff went through the report that summarized the output from the workshop and put together a couple of memos.

– Underwriting Policy Implications

A. Staff has identified two different member scenarios.

Vesecky stated that staff identified a couple of scenarios, one of which is a pretty new scenario because Hinsdale and Clarendon Hills are working toward forming a new police district and want to know if IRMA would provide coverage. Vesecky noted that they could come in as a district under our current guidelines, but when we looked at that, the risk of a single district is different than the risk of a member as a whole. If you carve out just a police district, their risk is going to be higher than a member that has other departments to help offset. Under our current pricing structure, we don't have any way of addressing that, other than the experience modifier. The problem that comes in with the experience modifier is that we have a credibility factor, so the smaller the member the less credit or charge they get for their own loss history. So it might be difficult for a police department who has typical police losses to be paying their own way on a go forward basis. If the police district was a current member, Hinsdale and Clarendon Hills would be able to deduct what they pay to the district from their revenue basis. In total, it shouldn't be much different. However, we are somewhat concerned about bringing in some of these districts that may be less homogeneous with IRMA.

Vesecky stated that staff has talked with the actuary about this and he is really reluctant to do new formulas for special districts. We could put something objective in place to maybe charge more, but then Hinsdale and Clarendon Hills may question why they should pay more for the police district than they would be paying if they were going forward the same way.

The other question that came up was how do we price all districts? Our understanding is that there is discussion about forming more and more of these smaller districts. This is something that really needs to be flushed out.

On a more immediate basis, Vesecky asked Bush whether Hinsdale and Clarendon Hills were looking for a response. Bush stated that the response now is that under our current rules if that district is brought in, they could become a member under our

formula. Because they are both members now, it is kind of a wash for the pool. However, let's say they have two other non-IRMA members who are in the district, in charging them the rate for a mixed group, they would really be undercharged. Bush commented that he thought the real underlying problem is that revenue base doesn't really get to this. Our assessment is that the membership doesn't really want to change that.

Vesecky noted that one of the concerns that we have with police districts is that they have liability issues that you don't always see with a fire district.

Bush stated that even getting to the specific example with Hinsdale and Clarendon Hills, under the current situation if they do have bad losses their credibility is higher. If you split off to a smaller district, the credibility is going to be much smaller, so the same loss isn't going to be absorbed so much by the member as it is now.

Irvin noted that with so many members considering going to these smaller districts for various services, do we need to bring in a consultant to help with this. Vesecky commented that staff talked to the actuary about this and he is pretty easy to understand. When we get down to it, we can bring him in. The question for the Executive Board is what is our intent? Do we want to try and develop separate rates for these districts? The actuary can provide us with some input.

Burke commented that we needed to look at this outside of the special district concept. If they are already existing and covered, there has to be a different way of defining their loss ratio or credibility as if they are combined and let them decide how they are going to assess the cost to the respective agencies. Burke said you are going to make your membership to self-select and deselect, because this is going to happen in all areas of operation and the revenue flow won't be clear under the IRMA model and we will have to figure out how to solve that puzzle or you are going to force members to make a decision. Operationally, their budgets are going to force them to make this choice.

Bush commented that it is a lot more distressing if Districts with non-IRMA members are underpriced as the IRMA members don't want to be subsidizing a non-IRMA member because we are under pricing police districts. Bush noted that in the past, IRMA has been somewhat homogeneous, but the more these odd districts come up, we are less homogeneous and, therefore, revenue base doesn't work as well. Bush stated that if an insurance company was doing this, you would have a police payroll rate, a fire payroll rate, an admin payroll rate, etc. and you would apply those different rates to those payrolls and that takes care of the whole thing. But it is a completely different thing than IRMA has used in the past.

Coren asked whether it makes sense to go back to the members and ask them how they want to fund, especially in the case of Hinsdale and Clarendon Hills, rather than IRMA saying this is how you have to do it. Put the onus on them to come to IRMA with a solution on an individual basis. Bush stated they then would be asking for our coverage and a charge from us.

Vesecky stated that with Hinsdale and Clarendon Hills and their police district as long as it stays as it is, we could say we will charge Clarendon Hills and Hinsdale the same as they currently being charged; don't deduct the revenue you pay to this other entity and we will provide coverage. Our coverage would be the same, but this is

only covering that one little thing. Bush stated that we could come up with an exception that would cover this circumstance.

Vesecky stated the bigger picture is that we need to address this as the wave of the future. Velkme stated that Western Springs is looking into dispatch, and is also looking at combining police services.

Schumacher commented that since this is something new for IRMA, why couldn't we have the structure Bush described earlier with the different pay rate for police, fire and administration? Vesecky stated that this is what needs to be discussed with the actuary. For these kinds of districts/cooperatives do we charge differently?

Bush stated that this was good direction – looking at a non-revenue base rating system or a new formula for the non-member districts/cooperatives.

Gargano stated that there has to be some consideration of not necessarily exceeding their existing contribution. It has to be reasonable because part of the reason you are doing the joint dispatch is to reduce your costs. If you have this huge insurance bill that you are not going to be able to go over that hurdle, then that stops these things from happening. Vesecky commented that the minimum contribution right now is \$50,000 and wasn't sure whether some of these districts/cooperatives would be able to pay that. LeTourneau stated that the minimum has been there for a long time and maybe it was time to raise it.

Vesecky reviewed scenario number two. In the case of the circumstances that we just talked about, if you as a member form a new district and that district is covered by IRMA, you would be able to deduct the revenue that you paid to the district/cooperative. The question came up for some of these major functions that are being outsourced, should we allow deductions of certain contracts. And should it not matter if who we pay to is a member of IRMA. A good example is Bannockburn, who left IRMA because our formulas didn't work for them. They outsource almost all of their functions, so they had a big revenue base, but were paying somebody else. Lincolnwood is currently outsourcing their fire service, yet there is no offset for that. The question is should we do it? How do we do it? Currently, you can deduct a payment for something like garbage that goes to a third party. The definition is that it has to be providing services to your residents and the income has to be raised through franchise or use fees. These are some questions that need to be flushed out. If we start to offer deductions, we are going to want to look at the contract, because we could be pulled in on a claim. How much staff time would be involved? Do we need preauthorization of an attorney checking the indemnification?

Irvin commented that he felt IRMA needs to make the changes to stay competitive.

Vesecky commented that with all these topics, do we want to form a committee from the Executive Board or do we want to send these to standing committees to work on.

B. How should staff handle situations involving large potential members such as Oak Park?

Vesecky stated that another item that has been talked about before is Oak Park. Members like Oak Park where the deduction we are giving for a \$250,000 deductible doesn't seem to be adequate or correct. Vesecky stated that staff talked to the

actuary about this and he agreed that if we brought in a new member and said you are always going to be at a \$250,000 deductible, do we do individual underwriting for that member. It would probably be done on an annual basis for that member. This would make us more competitive and allow us to attract some larger members. Vesecky commented that she didn't think this would adversely affect the pool – you are getting new members and if the underwriting and pricing is determined by the actuary every year, it should be adequate. We would build in pricing for administrative costs.

Bush stated that there is some kind of a time urgency on this, as Oak Park is changing managers, but did have a Board committee looking into this and they are still interested. This is something that the assistant manager has been calling on. Vesecky stated that if we get consensus at this meeting, we could ask the actuary to develop some methodology on this. Bush stated that staff is recommending this.

Vesecky asked whether this should be brought to the Administration and Finance Committee first and then back to the Executive Board. The Executive Board thought it was a good idea to bring it to the Administrative and Finance Committee at their September meeting. Vesecky noted that this will have to go through to the Executive Board and then the Board of Directors to be approved.

C. Should IRMA explore opportunities to bring more subjectivity into the pricing process?

Vesecky reported that a discussion came up at the workshop exploring how to add more subjectivity to the pricing process. Staff has talked to the actuary and he hands down says that he doesn't recommend it as it becomes a disaster unless you just put some objective measures in place. Based on discussions at the workshop and the experience of the actuary, staff is not recommending this.

Bush stated that the committee needed to go back to A. to determine how we are going to move forward. Bush stated that we were talking about a different rating system for special districts and we will have to talk to the actuary about this, before we can come back with what that might be. Bush noted that this could come back to the Executive Board at their next meeting. Vesecky brought up the fact that we had not budgeted for any of this extra consulting work. Vesecky stated that she had no idea what the charge would be. Velkme noted that the Executive Board cannot make a decision without looking at the consultant's work, so this is something that has to happen. Velkme stated that she thought it would be money well spent.

Irvin suggested that in order to have the actuary hit the ground running, it might be helpful to survey the membership about types of districts/cooperatives they are planning so we could have various scenarios. Vesecky stated that we had done a survey, but it wasn't very specific and thought this might be a good idea, especially in regards to #2 in the memo – members outsourcing major functions to non-IRMA entities. Bush suggested going to the actuary first to get criteria and then put the criteria in the survey to the membership.

– Service Policy Implications of Changing Member Needs

Bush stated that his memo outlines several categories. The first one is fairly simple, to develop more flexibility in individual member access to excess surplus. At the

present time, it can be used to reduce each Member's annual Initial Contribution at the beginning of each year. It has been suggested to give member's access at other times during the year for specific risk management purposes such as offsetting optional deductible payments, purchasing safety equipment or other risk management services. Staff discussed these specific purposes and decided that this is truly the members' money and they should be able to use it for what they want. Staff's thought is to let members ask for their money at certain times of the year. Vesecky stated that she felt quarterly would work well. The consensus of the Executive Board was for writing checks to members from their excess surplus four times a year.

Bush stated that the second category was group purchases of services related to insurance and risk management. Bush stated that there were a couple of concepts here. First, should IRMA expand group purchasing programs similar to the one we currently have for unemployment claims administration services? If we expand it, should the pool be paying for it? Should the cost be borne only by those using the service? If the cost is borne by the members, should an administrative fee be added to cover the cost of staff time? Bush stated that if we decide to go forward with this then he thought group services should be evaluated on a case-by-case basis, and what committee should oversee this. Velkme said she thought it should be the Membership Relations Committee and the Executive Board agreed.

Bush stated that this concept doesn't need approval by the Board of Directors because each item would be taken as we are trying to implement it. Staff will look at some potential areas and make inquiries. Bush stated that there is the possibility that if this expands, it could have staff implications. If that happens then that would be brought to the committee as well.

Gargano commented that some of these services could potentially come back to IRMA if they are not handled correctly, i.e. FMLA, so outsourcing could be conceived as something that provides coverage to the municipality and protects IRMA as well.

Bush asked if anyone had suggestions for staff to look at besides FMLA. COBRA and drug testing and CDL testing and audiological testing were recommended. Bush stated that this would be brought to the next Membership Relations Committee.

– Expand Grant Programs

Bush distributed a sheet that outlines the grants that IRMA currently offers to members. We have not had a formal application process and pretty much give a grant to any member who wants it for the limited grants that have been offered. Should IRMA utilize a grant application for evaluation of recipients to receive future grants? Bush noted that some of our competitors do this. If we do expand, how should we pay for it? Another concept is that we could take some money out of the excess surplus fund (let's say - \$500,000) to help fund the grant programs. Bush stated that in the past the consensus has been not to do this.

Schumacher stated that the present grant program listing is entirely appropriate and she doesn't want to get into the practice of funding other members' equipment, even if it does benefit the pool. Irvin stated that he thought the present list was great and as a caveat added that there seems to be enough of a delta between what the actual

and budget is, and that he wouldn't have a problem granting the Executive Director authority to grant what he sees appropriate to serve the membership.

Vesecky suggested that maybe we add a certain dollar amount to the grant program line item to be used discretionary. For 2012 the budget is \$32,000 – maybe increase it to no more than \$50,000. It was the consensus of the committee that the grant money not be used to purchase equipment.

**VI. EXECUTIVE SESSION**

A motion was made by Irvin and seconded by Malinowski to move into Executive Session. A voice vote was called and the motion carried.

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**VII. ADDITIONS TO AGENDA**

There were no additions to the agenda.

**VIII. CONFIRMATION OF NEXT MEETING**

Velkme announced that the next meeting of the Executive Board was scheduled for Monday, October 1, 2012 at 9:30 a.m. at the IRMA office.

**IX. ADJOURNMENT**

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

Submitted by:

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Larry Bush, Executive Director

Approved by:

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Ingrid Velkme, IRMA Chair