IRMA

INTERGOVERNMENTAL RISK
MANAGEMENT AGENCY

The Risk Management Solution for Local Government

ADMINISTRATION & FINANCE COMMITTEE
Meeting Minutes

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

PRESENT:	David Clark, Chair Dan Nisavic Andri Peterson Spencer Parker Katy Rush	Janet Gorman John Prejzner Kelly Amidei Gerald Sagona
ALSO PRESENT:	Laura Vesecky Larry Bush	Brian Goding Mary Henzler
ABSENT:	Scott Anderson	

I. CALL TO ORDER

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

II. APPROVAL OF MINUTES – November 15, 2012

A motion was made by Rush and seconded by Prejzner to approve the Administration & Finance Committee Meeting Minutes of November 15, 2012. A voice vote was called and the motion carried.

III. WELCOME TO THE 2013 ADMINISTRATION & FINANCE COMMITTEE

Clark stated that the welcome information in the packet is a good resource to keep for the rest of the year. It contains information on the other members of the committee as well as AFC committee policies. The calendar of meetings for 2013 is included. Clark stated that if anyone had a conflict with any of the dates, they should contact Vesecky or Henzler. Clark noted that the packet also contained the 2013 Anticipated Committee Activity List, and stated that if anyone had any other items they would like to see on the list, they should contact him or Vesecky. Clark brought up the Member Deductible Policy and asked if staff could talk to the actuary about adding a $150,000 and $200,000 deductible. Vesecky stated that staff would talk to the actuary.

IV. FINANCIAL REPORTS

A. IRMA Financial Statements as of November 30, 2012
B. IRMA Investment Portfolio as of November 30, 2012
C. IRMA Payables for the period 11/2/12 – 1/24/13

Clark asked Vesecky to guide the committee through the financial statements and point out what they should be looking for. Vesecky mentioned for any of the new committee members that haven't seen these financial statements that we keep each year separate. We have a different membership makeup each year, so each year stands alone.

Vesecky stated that she wouldn't be reviewing the investment portfolio as Brian Goding would be reviewing investments in his report. Vesecky added that this report goes to both Clark and Velkme (Chair of IRMA), and the Executive Director sees it every month as well. The committee is also given a list of payables for all the checks that have been issued.

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

V. FIDUCIARY CONSULTANTS – Brian Goding

A. Merger

Goding reported that as of December 31, 2012, Fiduciary Consultants merged with Marquette Associates, which is a Chicago-based investment consultant firm. Goding stated that Fiduciary Consultants, which he owned 100% of, had about $5 billion in assets under management, and 8 employees. Goding stated that over the past couple of years, he had been approached by Marquette here in Chicago about the possibility of a merger. Marquette was looking to expand and they have some clients in the St. Louis area. Goding stated that Fiduciary Consultants and Marquette Associates have known each other for a long time and decided a merger would be a good fit. What it does for the Fiduciary Consultants clients is to take them from a small firm, which did a very good job, to having a much deeper base with the complexity of the investment market. It gives us a lot more resources.

Goding stated that the first page in the booklet distributed is an update on the firm. The combined firms have about $80 million in assets, have about 50 people on staff, have a dedicated research firm, and have an actuary on staff to conduct actuarial studies. Goding stated that this merger is not a plan for him to retire. He will be working for a lot longer.

Goding noted that as far as IRMA is concerned, nothing has changed. Fiduciary Consultants still exists. It is wholly owned by Marquette and Goding now has a small piece of Marquette. The contract with Fiduciary Consultants is still good. We do not have to change it unless IRMA wants to re-negotiate it. Vesecky stated that IRMA's agreement with Fiduciary Consultants was to look at it at the end of this year, so maybe at that time we will re-negotiate with Marquette.

B. 4th Quarter Investment Performance Report

Goding reviewed IRMA's Asset Allocation Policy for the committee to show how they have the assets invested. 40% is invested in fixed income, spread among three different managers; 50% of the assets are allocated to the stock market – 20% U.S. Equities, 10% Mid-Cap, 10% Small-Cap, and 10% International. Then we have 10% allocated to Alternatives. Goding noted that they try to stick to these percentages, but will recommend rebalancing if they go more than 5% over or under a particular allocation.

Goding distributed the new investment manager report under the Marquette Associates name. Goding stated that the very first part of the report is an economic summary that contains a wealth of information on the economy, and encouraged everyone to read it.

Goding moved to the report on IRMA's investments. Goding reviewed page 1, which gives a breakdown of the Investment Managers, explaining to the committee the asset class of each of the managers and whether they are in compliance with IRMA's Investment Policy guidelines.

Page 2 of the report, shows the managers and the ending market value as of December 31, 2012. It shows the percentage of money that each manager has versus the policy percentage. Page 3 shows the asset allocation and how over time it changes.

Goding moved to page 11 of the report that shows the Annualized Performance (Net of Fees). Goding reported that the total fund did very well for the quarter ending December 31, 2012 – up 1.4% and the custom benchmark was up 1.5%. Year-to-date, the fund is 1% above the index. Page 13 breaks down the managers and their performance over time compared to their particular benchmark.

Goding apologized and reported that when they made the switch to the new report, some data didn't get transferred over. Legg Mason International Equity has a much longer history with IRMA than what is reflected on page 13 of the report. However, Goding noted that they haven't been performing very well recently and they have been on watch. From this report, you can see that they continue to underperform. The committee had decided to give them to the end of the year to improve performance. Goding suggested that he come back to the next meeting with a search to replace them, if that is what the committee decides. A motion was made by Rush and seconded by Sagona to have Goding come back to the June meeting with a search to replace Legg Mason. A voice vote was taken and the motion carried.

Vesecky told the new members of the committee that Kayne Anderson was just brought in during December 2012, and they are our new Small Cap manager. Performance at the beginning is rather slow, so we have to give them a chance to get their portfolio in place.

Goding commented that Mainstream has gone through some problems over the last several years, following a merger with another company. Goding reported that Mainstream is uncoupling from that merged entity and going back to the structure they had when we first hired them. Since that demerger, they have outperformed every month.

Goding stated that page 15 gives a look at the total composite versus the benchmark and the universe over the last 5 years. Goding stated that the rest of the report is more analytical data. There is a breakout for each individual manager.

Gorman commented that each month Vesecky gives an investment portfolio to Chair Clark that is a summary of all the managers, but Gorman was unsure which managers belong to what part of our allocation, i.e., fixed income, alternatives, etc. Vesecky stated that she could put headers on the report to point this out. Vesecky stated that she could probably take it off the letter format and prepare it more as a report. Vesecky stated that she would work on this.

Clark asked Goding how our allocation was doing and did he foresee any rebalancing in the near future. Goding stated that he didn't see a need for rebalancing at this time, as we are pretty close to our targets.

VI. RETENTION OF IRMA STAFF

Bush stated that the memo in the meeting packet was fairly self-explanatory. IRMA has a small staff and there are some people who have been in positions for a considerable amount of time. Promotions within IRMA are very limited. Bush stated that he didn't feel it was appropriate to distort the organization's salary structure to try and create positions or raise the levels. Nevertheless, in the claims area there is a growing shortage of claims adjuster positions. The most obvious thing is to go out and hire a consultant, but Bush stated many of our small and mid-sized IRMA members are experiencing the same problem and it is likely that they have investigated approaches that can help retain employees.

Clark stated that from his perspective, there should be a clear delineation as to what market IRMA competes with. IRMA is not municipal, but positions may be more akin to what is going on in the insurance industry. Clark said he would be supportive of a process of sorts to look at those types of issues. Maybe it's more in the line of performance bonuses where it's tied to something that is measureable.

Bush stated that he was not looking to find out whether our positions were matched in the market. To do that, we would have to get a consultant. It's more of a procedure in giving merit increases. Bush stated that some members are using a longevity factor, which he personally doesn't like. Rush stated that most members want to get rid of that.

Rush stated that she agreed with Clark, because there are different pay practices and pay constraints in the private sector versus the public sector. Rush stated that she felt it was important to get the data as to what is going on in the insurance sector in terms of employee retention, payment practices and perhaps even bonuses and succession planning. Then as a dual track – find out if there is anything going on in the municipal sector that may be helpful. Rush stated that they are having similar conversations on how to keep employees, as over the past three years they skewed their salary plan because of the economy. Rush commented that they are dealing with a different set of factors than IRMA may be. IRMA needs to proceed on the private side and gather some data, but also has to look at the municipal side that is still struggling. If you are going to have performance bonuses that are 6-10%, that's where you will hear the complaints from the municipal side.

Bush asked whether the committee felt IRMA should get professional assistance with this. Gorman stated that she felt the issue was what do we want for structure for IRMA? If you really do a study on the jobs themselves, it is a lot more complicated. Gorman stated that her concern is that you have a lot of people who haven't moved for years because the economy didn't allow it. However, you want to be positioned when the economy picks up to retain your employees. The flip side is that you have two key employees that will be leaving. Is the timing right for this? Do you start the groundwork now with the thought that when the new Finance Director and Executive Director come in they can complete that process, or do you have it completed before they come in? Bush stated that he had thought of that, but he thought that a new person coming in wouldn't want to be increasing anything. Gorman stated that she felt you could probably have a group of IRMA members begin to take a look at this, and she would hate to have to pay a consultant.

Amidei stated that she didn't want to have to pay a consultant either, but it validates the process by using a third party, which is one of the issues that we face when we start talking salaries.

Clark asked whether it would make any sense to ask a group of members to weigh in on this topic further before it goes to a consultant. Prejzner stated that if the concern is that employees have been with IRMA so long that their ability and talents have outgrown the position, he didn't know whether compensation structure is the solution. Maybe looking at a restructuring or looking at alternative job titles would be something that a consultant would have to look at.

Nisavic asked what the issues were with a person being in a position so long with no way to move up in relations to their abilities to do that. How do you determine that someone is ready to grow to the next level? Are there indicators? Do they have certifications or is it just experience and time spent? Bush stated that it's more that there is no level to go to. Nisavic stated he understood that, but if there was a level to go to, what would be the parameters for that person to go to the next level? Let's say we create some next levels. Why would a person go to the next level – just because they have been here for some time? Bush replied, no. Nisavic stated that we need to identify and create a next level in a scale that would warrant them moving to the next level. Bush commented that if a person was at the top, he guessed you could move the top up. Nisavic asked if Bush was talking about heads of departments. Bush replied, yes. Nisavic commented that there were still ways to create categories of achievement and scale. Bush stated that is what he wants to discuss.

Gorman stated that she wasn't opposed to bringing in a consultant, but whatever consultant they have, maybe they should be working with some of the members. Amidei disagreed and said that she didn't feel that the members should be involved in the process, but only involved in the recommendation and the acceptance.

Bush noted that he could take a much more narrow approach and he could make adjustments to specific individuals if he felt it was needed. We could create a position and make a promotion, but it is kind of distorting the organizational layout to deal with a specific problem. Vesecky gave an example. Say we have a Claims Adjuster II that always handles a certain level of claims. We are always going to need the Claims Adjuster II position. We don't want to promote that person to a Claims Adjuster III position and not fill the Adjuster II position, just because they have been here a long time and have developed skills where they could do higher level claims.

Rush commented that maybe an annual bonus would work. You could establish an annual bonus pool – let's say around $10,000 for the whole organization and then divide it up among those who the Executive Director determines should receive a bonus.

Sagona asked what the compensation plan was now. Bush noted that IRMA raises are given for merit, and not cost of living. This year there is a 3% salary increase budget. Bush stated that the problem he has with a bonus is that if you have an employee who is contemplating leaving and they get a bonus this year, they may not get a bonus in the following year. They may weigh that and decide to leave.

Gorman stated that if the nature of a person's job is changing then in all fairness to them, change the structure. However, Gorman stated that she wasn't sure whether the time was right to do this.

Sagona asked what Bush was asking of the committee. Bush stated that he had seen some of the longevity increases that some members give, and that is not what he wants. Let's say he gives a person a one-time 6% increase, based on the fact that if we had a position, they would get it in combination with them receiving five years of excellent performance reviews. We definitely want to have a merit component. So they are bumped up and are eligible for another bump up in five years.

Rush stated that you could redline somebody if an employee has hit the max, but this trashes your salary plan. Vesecky pointed out that we don't have anyone at the max and we don't have a lot of these people in the top third of their range, because we are constrained as to how much we can give them every year. We have been growing our salary ranges, so a lot of the employees that Larry is talking about are still in the middle part of their range. There is room in the salary range to move them up if we had the budget and capability to do it. The question is, do you want to make it permanent or do a bonus program.

Nisavic stated that he thought it goes back to doing a study. You need to find some comparables and place them in the market to see if they were to go elsewhere, where would they land. We can get a sense of where we should be from that, because right now we are talking about some arbitrary things that might make them feel good. We need to know what would draw the employees out of IRMA. Rush stated that if a Claims Representative II is making $5,000 more out in the market than they are here at IRMA, then Bush would be justified to give them at least $5,000 more or he would lose them. Rush added that he could do this as long as he doesn't go outside the range.

Sagona asked whether there is a range where people have been for ten years and they made it to the middle, but never got to the top? Bush replied, yes, because our ranges go up every year. Nisavic commented that the person may get a 3% increase, but the range keeps growing at the same increment, so they never catch the top.

Bush stated that one of the areas he is thinking about is Claims Supervisor. Supervisors at the same level in the insurance market are making more than the IRMA Supervisors.

Nisavic commented that he thought a study is where Bush needs to go, so he has something to base the salaries on.

Bush noted that we have not done a salary study in many years. Clark stated if a study was going to be undertaken, it should look at more than just salaries. We need to look at the full band of compensation, i.e. IMRF, medical insurance, etc.

Rush noted that the study could come back saying that your salaries are right on track, or some employees are being paid too much. Bush said that would be okay.

Clark stated that when the ranges go up and the salaries go up, there is a frustration by employees because they are not making progress towards the maximum of their range.

Nisavic recommended having the company who will do the survey come to an AFC meeting to discuss the scope of the project. Bush stated that he wasn't opposed to that at all. Gorman stated that she felt that staff could come up with a scope and didn't think the committee had to be in on it. Gorman stated that she thought staff should find out the cost of doing a study and come back to the committee to approve.

Sagona commented that when you start looking at employee motivation, salary or compensation seems to end up third or fourth on the list of what really motivates employees. If there is an issue of retention, there are many things you can do outside the scope that doesn't impact the bottom line. Rush agreed that there is a lot of flexibility in your scheduling and IRMA is responsive to peoples ability to take a 3-day weekend. Bush stated that we have done a lot in that area. We have even given some employees the capability to occasionally work from home.

Sagona asked what feedback staff has gotten from employees that raises this in the first place. Bush noted that specific employees have pointed out what they could make elsewhere. Sagona noted that he has some of those employees in his organization.

Rush stated that if you wanted to make this simple, put in a pool of $20,000 that you can add to people's salaries and it's done. A salary study will run about $25,000 - $30,000.

Gorman asked whether the committee was leaning toward doing something internally, or are we giving Bush permission to contract for a salary study? Nisavic stated that he would be leaning more toward the study, because if we try and do something internally as a committee, it's not going to be effective. A consultant would find some comparables in salaries and benefits in the marketplace.

Sagona commented that this is something that should be coming back to the committee as a recommendation from staff. Bush stated that what he is hearing is that the committee is leaning toward IRMA contracting for a salary study.

Nisavic commented that he thought it was more important to just pay people at a fair rate that their position should demand, as opposed to worrying about who is going to come or go. Everybody can be replaced.

The committee asked staff to bring back a consultant's recommendation and scope of work to conduct a salary study.

VII. RECRUITMENT FOR DIRECTOR OF FINANCIAL SERVICES

Bush reported that this has been discussed at the Executive Board level in meetings that he has had with the Chair, Chair-Elect and Immediate Past Chair. They believe that we may have some members' staff that has had extensive previous contact with the Executive Director apply for the position. They are recommending that we utilize an outside recruiter who can provide an independent evaluation of applicants.

Bush noted that the job description for the Director of Financial Services had been revised. In reviewing the job description, the committee recommended changes to the Position Requirements – adding "CPA/or" to (graduate degree preferred). Also stating that a minimum of seven years "senior level" experience be added. Experience with self-insurance… be changed to read Experience with self-insurance, "public entity risk pooling and/or" other alternative financing programs preferred."

Rush stated that she thought something should be added stating that the Finance Director has to interact and make presentations to different committees and the Board and interact with consultants.

Staff is recommending contracting with Voorhees Associates for a total fee of $15,900. A motion was made by Prejzner and seconded by Gorman to approve proceeding with recommending the Voorhees Associates contract to the Executive Board. A voice vote was taken and the motion carried.

VIII. FINANCIAL AUDITOR CONTRACT

Vesecky noted that we had discussed this at the last meeting, but she wanted to bring it up again. The auditor contract is good through the 2012 Audit that will be presented in June. Vesecky commented that with her retirement, she thought it made sense to extend the contract for one year. Next year the committee can decide if they want to go out with an RFP. Clark commented that maybe even a two year extension would be better. Vesecky asked if the committee wanted her to work with the auditor now or wait until the 2012 Audit is complete. The committee recommended Vesecky work with the auditor now. Vesecky mentioned that the auditor will be at the June committee meeting, so we can have the contract extension on the agenda as well.

IX. OUTSOURCING SURVEY RESULTS

Vesecky stated that one of the things that we talked about at last year's planning workshop was that members are doing more either outsourcing or forming groups for services. The way IRMA charges contribution rates might not really work with those new functions. Right now the only deductions we have are pretty limited. If you outsource your garbage and it's paid through franchise fees, you can deduct that amount. It also says you have to be indemnified, but IRMA doesn't check that. We rely on the members to review the contract indemnification clause. We have some members who may be outsourcing garbage, but they are raising the funds through taxes. They do not get the deductions. We have some members who outsource garbage and pay part of it through franchise fees and part of it through taxes. They can only deduct the amount that is collected through franchise fees. For water services, we allow members to deduct half of their revenues from their water and sewer revenues. We don't deduct the amount that you purchase, but half of your revenues. This is all the deductions that are currently out there now.

Staff sent out a survey to the membership to see what else is out there. When staff met with the actuary, he recommended that we only look at services that have a 5% threshold. However, because we wanted to see what was out there, we lowered it to 2%. Even then, there are a lot of things that don't meet the 2% threshold.

Vesecky reported that one of the common responses on the survey was refuse collection, and we may want to consider if you outsource refuse, regardless of how you collect for it, we would allow it as a deduction. We have some members that are outsourcing EMS, Fire and Paramedic services. Currently, that can't be deducted. Outsourcing these functions is taking a great liability off of IRMA's books, assuming that their liability shifted. Vesecky noted that IRMA would have to review their indemnification clause in the contract. Otherwise, we would not allow the deduction. One of the things that staff suggested is that we have standard indemnification language and we review the contract. If they use our language then they get the deduction. If they don't then they don't get the deduction.

Vesecky noted that something common that did come up was dispatching. It doesn't meet the 5% threshold, but more and more members are outsourcing their dispatching services. The question is do we want to have that as an itemized deduction.

Staff is trying to determine that if we want to add anything, do we just try to change the language or do we list specific functions that are eligible for deduction. Right now, because we have some members doing some of these things, if we looked at the 2013 contribution and decide to put in place for some of these deductions, we still have to collect the same amount – it's a reallocation of contributions – those members who aren't outsourcing are going to pay more. That is really a policy decision.

Bush commented that the reason this came up was not because of concerns about the existing arrangement, because for example many members who now have fire are talking about getting rid of fire and going to a centralized fire protection district. Their concern and IRMA's as well is if they go to their village council and tell them they are no longer paying for fire and no longer have the liability for fire, but our IRMA rates don't go down. This is a real problem. Then it gets even further in that even if you deduct the revenue base that they are no longer paying for fire, the reality is that fire has a much higher rate than the overall IRMA rate. You could have someone that says we are no longer paying fire fighters, so my rate will go down 10%, but when I look at my loss history, 40% of my loss history is for fire. So, I'm losing 40% of my losses, but only getting 10% reduction in my IRMA contribution. This is where the complexity really comes in.

Rush stated that she thought the reasons why you had reductions was because, for example in the case of water, it's a pass through. You are purchasing that water then selling that water, so you are deducting a piece of the water. In dispatch, because we have chosen to secure that service in a different way than paying employees, I am not collecting any less revenue, I am just paying less. Rush stated that she didn't think dispatch in any way should be considered as some type of change to this. Vesecky asked whether as a member who has dispatch, does Rush think they should have been paying less to IRMA, because you took that liability off of your books. Rush replied, no, because the liability is not totally gone. Bush asked Rush if she would feel the same way if she got rid of her entire police department. Rush stated, for example, if you are collecting revenues for a centralized police department, maybe it's similar to water, you can take some deduction, but not the whole thing. Or, then you look at the whole revenue base and decide whether it should be the basis for the whole premium.

Gorman stated that garbage is a total contract as is ambulance sometimes – deduct it all. Gorman stated that where she agrees with Rush, as her entity is in Du Comm also, liability is somewhat removed, but not all of it.

Amidei stated that they just did dispatch and the workers' compensation liability is a big part of it. Maybe the deduction should be a portion because you are getting rid of the workers' compensation liability, but there is still some inherent liability. Bush stated that the actuary says it should be a percentage of deduction – not the whole thing. Amidei stated that we need to have some way of determining what that percentage should be. Rush commented that maybe it's the salary expense that should be the deduction. Rush added that she feels staff will have to calculate that with the actuary.

Bush stated that this brings the entire revenue base situation into question.

Prejzner commented that maybe we need to develop some language and not categorize each one, because you would be coming back to the committee each time. Make it similar to the water situation. Clark noted that staff will need to be able to pick information out of the Members' CAFRs that are available to IRMA, instead of having to hire an actuary each time. Vesecky noted that it would be the amount that they are paying on the contract. We do this with refuse. Vesecky noted that with any of these, we would have to review the contracts. It would have to be something that is pre-approved.

Bush stated that what he was hearing from the committee is that a deduction is fine, but we shouldn't be trying to distinguish between fire and different levels of exposure because that gets away from revenue base. Vesecky commented that as the actuary suggested, maybe we stay at the threshold of a certain percentage to consider only major contracts.

Clark noted that this is on the agenda for the next meeting to continue discussion. Bush stated that staff will come back with some specific language that would adjust revenue base and requirements for reviewing the indemnification language.

X. INVESTMENT NEWSLETTERS

Vesecky reported that the investment newsletters were posted on the IRMA website.

XI. ADDITIONS TO AGENDA

There were no additions to the agenda.

XII. CONFIRMATION OF NEXT MEETING

Clark reported that the next scheduled meeting of the committee is Monday, June 10, 2013 at 9:30 a.m. at the IRMA office.

XIII. ADJOURNMENT

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

Submitted by:

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Laura Vesecky
Director, Financial Services & Administration

Accepted by:

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David Clark, Chair
Administration & Finance Committee