

Approved 2/17/03

**Village of Downers Grove
Finance & Administration Committee Meeting
Village Hall – Ante Room
February 3, 2004**

Commissioner Zabloudil called the meeting to order at 5:34 p.m.

Present: Commissioner Zabloudil, Commissioner Sandack, Village Manager Ginex, Dave Van Vooren, Trisha Steele, Mike Baker

Absent: None

Others

Present: Risk Manager Dennis Burke

Items for Discussion:

- Approval of Minutes
- Insurance Update
- Budget Process Update
- New Business

Approval of Minutes

The minutes of the January 20, 2004 Finance and Administration Committee Meeting were approved as presented.

Insurance Update

Mr. Van Vooren said the Commissioners had asked staff to interview several insurance brokers, ascertain their specialties, and submit a recommendation to the Committee. During the past week he and Mr. Burke met with six mid-regional Illinois brokers, including the two brokers that the Village is currently using. Mr. Van Vooren said there are only two companies that are willing to provide a quote to the Village for municipal workers comp insurance. All the brokers he and Mr. Burke interviewed cited Safety National, the company that the Village currently uses for workers comp, as the best company for municipal workers comp insurance. Mr. Van Vooren added that all of the brokers were asked to provide a fee for the services, rather than working on a commission basis.

Mr. Burke distributed and reviewed a memo containing an overview of the insurance broker interviews.

Mr. Burke and Mr. Van Vooren interviewed the following insurance groups: Arthur Gallagher, Mesirow Financial, Hilb-Rogal & Hobbs (HRH), The David Insurance Agency, The Horton Group and Custard Claims Management Services (CCMS). All of the brokers offered all lines of service, except for Custard Claims, which specializes in Workers' Compensation. Custard Claims offered two years of claims administration service at the same fixed cost as the past two years. However, Custard Claims is not interested in providing property or casualty insurance to the Village.

Mr. Burke said the fees for services were as follows: \$20,000 for HRH, Arthur Gallagher, and Mesirow Financial; \$30,000 to \$50,000 for The David Insurance Company; and \$47,500 for the Horton Group. The underwriters to be approached were for the most part duplicated by all brokers and agent, except for a proprietary line of coverage available to Arthur Gallagher for the first layer of excess. The brokers can go to all markets, however, the agents would be limited to those underwriters with which they have contracts and Mr. Burke did not believe that would result in the best quotes for the Village. The groups that were interviewed offered many similar services.

In his opinion, Mr. Burke felt that HRH or Arthur Gallagher would probably best serve the Village's needs. However, he said there is a concern regarding Gallagher's claims administration service. CCMS would have to be approved by the proprietary insurance underwriter or the Village would have to switch Third Party Claims Administrators (TPA) from CCMS to Gallagher and Bassett and this would be a significant change.

Also included with the memo were the quotes received from HRH and A. Gallagher for the 2003 renewal for liability and property insurance. Mr. Burke clarified that HRH was formerly known as the Hobbs Group.

Mr. Burke said he and Mr. Van Vooren would prefer to go back to HRH for liability and property insurance and Custard Claims for workers comp. However, if the Commissioners wish, Mr. Burke said they would request HRH and Arthur Gallagher to compete for the Village's business.

Commissioner Zabloudil said he felt the Village should go out for quotes. Mr. Burke clarified that the Committee recommended that the Village obtain quotes from Arthur Gallagher and HRH. Mr. Burke said the quotes probably would not be in until early April.

Mr. Van Vooren said although only one broker dealt exclusively with workers comp, all brokers said they would do workers comp. Beginning May 1, 2004 the Village will begin the second year of a three-year contract with CCMS for claims processing. Mr. Van Vooren requested Council authorization to request Custard Claims to bring back a package of workers comp coverages. Mr. Van Vooren said he would ask them to provide quotes for the Village's current \$350,000 Self Insurance Retention (SIR) and quotes on increasing the SIR to \$500,000 so Council could compare the cost of different levels of

coverage. Mr. Van Vooren added they could also request HRH and A. Gallagher to bring back quotes on different SIR's for liability and property coverage.

Commissioner Zabloudil suggested that the Village get quotes from all three companies, which provide workers comp to municipal workers: Safety National, Midwest, and AIG.

Mr. Van Vooren advised that some companies might not be able to provide a quote for the entire package because only two go above \$10 million. Mr. Burke said A. Gallagher and Hobbs were both able to secure the first layer of \$10 million. Mr. Burke said they would also try to get an aggregate stop loss, which he felt would enhance the total package.

Commissioners Zabloudil and Sandack asked staff to proceed with obtaining the quotes. Mr. Van Vooren said the Village's current property exposure is \$60 million; however, this will increase when the new parking deck is completed. Commissioner Zabloudil suggested getting quotes for the current property exposure and quotes including coverage for the parking deck so that Council can see the impact of the deck on the Village's insurance costs. Commissioner Zabloudil also asked for insurance quotes including coverage for the Village buses and quotes without the bus coverage so Council could compare the costs.

Mr. Van Vooren said the River Grove bus accident settlement came in at a little over \$27 million and the Village has \$30 million in coverage for this year. Mr. Burke said the Village should be able to get more than \$30 million in coverage for next year.

Budget Process Update

Mr. Baker said staff is putting together materials for the February 7th Budget Review Session and he hopes to send them to Council for their review a few days before the meeting. Staff is compiling and prioritizing departmental Capital Project Request forms before presenting them to Council. The Commissioners agreed that Council has to make some decisions with regard to prioritizing projects and services.

Although Council had asked for a list of deferred items for Police, Fire and Public Works, Mr. Ginex asked all directors to make a list of all deferred items for Council's review. After the Budget Review is completed on Saturday, Mr. Ginex said he would like some direction from Council in preparation for the upcoming tax levy discussions and decisions, which must be made by the end of February. Commissioners Zabloudil and Sandack agreed that it is important for the Council to review and prioritize all items. As the Council prioritizes projects and services, and reviews the budget, Commissioner Sandack noted that they must consider the impact that budget changes will have on these projects and services.

On Saturday, Mr. Van Vooren said they intend to complete the discussion of the remaining programs in the General Fund and discuss three or four of the Enterprise Funds and the Capital Projects and the Debt Service Funds. Mr. Van Vooren said they also

might discuss the Fire and Police Pension Funds, the Equipment Replacement Fund and the Health Insurance Fund; however, all the detail for these accounts may not be ready for Saturday's meeting.

Mr. Ginex and Mr. Van Vooren advised that in February the Council will finalize the tax levy issues. Mr. Van Vooren said he and Mr. Baker have worked with the TIF and they believe there may be enough increment to lay off another bond issue and not have to levy tax for it, which would draw down the rate a little. However, staff is waiting to see how the County determines the TIF increment before presenting the information to Council. He explained that the County does not determine the increment until April, so staff will have to make some assumptions in the meantime. Last year the Village assumption was \$200,000 over the County's TIF increment; however, the money is being used to buy off an issue this year. The Commissioners agreed that it is best to make conservative assumptions.

Ms. Steele suggested letting the public know that taxes are based in part on assumptions and that if the assumption is higher than needed, the excess will be applied next year.

Mr. Van Vooren added that all of the bonds that the Village sold have the tax increment as a pledge. The bond issue has use of 100% of the increment first as is required. Thus, the Village cannot defer that increment to other TIF related expenses. Mr. Van Vooren said he would also like to discuss TIF related expenses other than capital or debt related issues, i.e. personnel costs, planning and management expenses, etc., which are being operated out of the proceeds of the bond.

Mr. Van Vooren said when the Council begins evaluating the RFP's they will need a revised TIF funding schedule. The early analysis, which Friedman completed two years ago, should probably be reviewed and updated to determine whether or not the increments are going to work, as there have been some changes since the analysis was done. Friedman's analysis indicated partials in the Curtiss block would come on line in the later part of 2005 and part of 2006, which may or may not still happen and there is also a bank on Forest, which was not initially included. In addition, the way some of the debt issues were loaded there are significant changes in the amount of debt payments over time. One of the early debt issues has level payments of \$300,000 per year for the first 20 years; however, the last three years' payments are \$1 million, \$2 million, and \$3 million respectively. As a result, Council must make sure that increment is available.

Mr. Van Vooren said the Council has also indicated a desire to discuss the Real Estate Fund. The Village has surplus property, including four homes near Fire Station #2 on Main Street and staff would like some direction from Council on this matter. Mr. Van Vooren said this fund currently has a half million-dollar surplus. In addition, it is owed about \$1 million from the Fannie May building because the TIF paid about three-quarters of a million dollars and the Real Estate Fund paid about \$1 million. There is also a \$4.5 million dollar note.

Mr. Van Vooren said he has heard that there is some desire to review the Village's surplus real estate to see if any of it could be brought back onto the market in a reasonable fashion. Mr. Van Vooren added that these houses are not in the TIF.

Commissioner Sandack asked for a breakdown of the Village's real estate holdings and the rent and expenses involved.

At Saturday's meeting, staff would also like direction from Council on the Village bus program/Transportation Fund. Ms. Steele pointed out that the budget does not include an expense item to help fund the deficit. If Council chooses to keep the transportation system, it could be spread over several years. Ms. Steele said that this item should be addressed.

New Business

Ms. Steele distributed a copy of the Village's current Administrative Regulation regarding capitalization thresholds. In many communities the capitalization threshold is set as a Council Policy, rather than an Administrative Regulation, although, this is not required. However, Ms. Steele said staff would like to raise the thresholds in the current regulation.

The implementation of GASB34 requires additional disclosures including the Village's policy on the capitalization of assets and the basis for estimating the useful life of assets. Unless the threshold is raised, this project will take weeks instead of days to complete. Staff will be tracking projects worth several million dollars, i.e. streets and stormwater systems and the current \$5,000 threshold seems too low. Ms. Steele suggested raising the threshold to \$25,000. This would represent a significant asset that would have a reasonable life and depreciation could be allocated over three to five years.

Commissioner Zabloudil asked how Ms. Steele happened to choose the sample policies from Sugar Grove, Lake Zurich, and Woodridge that she include in her informational packet. Ms. Steele explained that when the audit firm recommended changing the capitalization threshold, she requested examples and they supplied the policies from the above communities. If the Commissioners are comfortable with the information that has been presented, Mr. Van Vooren said staff can complete the audit preparation work and prepare a policy for a Council vote or it could be handled administratively as is currently done.

Commissioner Sandack asked if the auditors recommended increasing the threshold because of GASB 34. Mr. Van Vooren and Ms. Steele replied yes. Commissioner Sandack asked Ms. Steele to check with neighboring communities regarding their capitalization thresholds. He added that he agreed with the suggested increase of the threshold to \$25,000. Commissioner Zabloudil agreed that \$25,000 was an appropriate amount. Commissioner Zabloudil clarified that the capitalization threshold policy was a separate issue from the Manager's approval limit. Ms. Steele agreed.

Mr. Van Vooren presented a list of outstanding false alarm fees. He explained that staff is in the process of tracking down \$26,000 in alarm fees, most of which are owed by banks. He said he intends to work with the Legal Department and Chief Porter to resolve the issue. Currently the Police Department responds to any alarm, which goes off on their panel. However, Mr. Van Vooren said he would like to see if alarms could be handled differently. Perhaps business owners should be asked to meet with a police officer at their place of business to disconnect the police alarms, which are not required, if false alarm fees are not paid. If the Village disconnects police alarms, perhaps owners would be motivated to pay the outstanding alarm fees.

Commissioner Zabloudil asked Mr. Van Vooren to discuss the Village's options in this matter with the Village Attorney. Mr. Van Vooren agreed. Commissioner Zabloudil asked about the current fine for a false alarm. Mr. Van Vooren said the fine begins at \$100, and doubles until it is paid. Commissioner Sandack agreed that this is a matter for the Legal Department. He agreed that the fines should be paid and if they are not, he would like the Village to take some action.

The meeting was adjourned at approximately 6:18 p.m.