AGENDA
President and Board of Trustees
Village of Arlington Heights
Committee-of-the-Whole
Board Room
33 S. Arlington Heights Road, Arlington Heights, IL 60005
May 8, 2017
7:30 PM

I. CALL TO ORDER

II. PLEDGE OF ALLEGIANCE

III. ROLL CALL OF MEMBERS

IV. NEW BUSINESS

A. Election of President Pro Tem
B. Proposed Change From a Self-Insurance Program to IRMA
C. Departmental Status Reports - Finance
D. Departmental Status Reports - Fire
E. Departmental Status Reports - Legal

V. OTHER BUSINESS

VI. ADJOURNMENT

Persons with disabilities requiring auxiliary aids or services, such as an American Sign Language interpreter or written materials in accessible formats, should contact David Robb, Disability Services Coordinator, at 33 S. Arlington Heights Road, Arlington Heights, Illinois 60005, (847)368-5793 (Voice), (847)368-5980 (Fax) or drobb@vah.com.

Item: Election of President Pro Tem

Department: Village Manager's Office

Election of President Pro Tem

ATTACHMENTS:

Description	**Type**
Appt. of President Pro Tem	Memorandum

INTER OFFICE

MEMORANDUM

TO: Village Board of Trustees

FROM: Village President Thomas W. Hayes TWH

RE: Appointment of President Pro Tem

DATE: May 4, 2017

Village Code requires that the appointment of a President Pro Tem be made the second Monday in May following a municipal election. The Code further requires the Village President to send a memorandum advising the Village Board of his/her recommendation not later than the Friday before that meeting.

My recommendation is that Trustee Carol Blackwood be appointed as President Pro Tem, and I ask for your concurrence with this recommendation.

Carol was first appointed to the Village Board in February 2010, was elected to a full four-year term in 2011, and was re-elected in 2015. She previously served on the Village's Plan Commission for seventeen years including time as Chairperson. In addition to many other activities, Carol is a Past-President of the Arlington Heights Chamber of Commerce and currently serves as Arlington Heights' representative on Meet Chicago Northwest.

I am confident that Trustee Blackwood's experience, expertise, and demeanor will serve us well in this role. Although I know that everyone has helped out over the years, Carol's regular employment within the Village will also make it easier for her to fill in for me and represent the Village as needed.

My thanks to all for your continued dedicated service to our community, and your support as we move forward in the coming years together.

Please let me know if you have any questions or concerns prior to Monday night's meeting.

Item: PROPOSED CHANGE FROM A SELF-INSURANCE PROGRAM TO IRMA

Department: Finance

Since September 2016 Finance, Human Resources, and Legal Staff have been working on a cost/benefit comparison of maintaining our current self-insurance program versus joining the Intergovernmental Risk Management Association (IRMA). The combined annual cost budgeted for the Village's General Liability and Workers' Compensation insurance program is nearly $2.8 million per year including personal services and contractual costs. To help the Village administer these coverages over the years, the Village has worked with an insurance broker, Rich Stokluska from A. J. Gallagher, partnered with the High Level Excess Liability Pool (HELP), and worked with our Third-Party Administrator (TPA) Gallagher-Bassett (GB).

Four years ago the Village solicited Requests for Proposals for our TPA service. After reviewing the proposals from other TPAs, the Village decided to stay with GB for another three year term. However, the Village has continued to experience some concerns about the number of changes in GB's Account Manager and changes in our Claims Managers, both of which have resulted in some inconsistent service. In addition, Village Staff has had to push GB to follow-up on a number of our workers' compensation claims. GB is paid about $75,000 per year to handle workers' compensation claims and about $21,000 for general liability claims. This three-year contract expires on 4/30/17, but it has been extended for one month while the Village worked to complete our overall insurance analysis.

The Village's insurance program represents a significant cost and is reviewed from time to time. Under our existing self-insurance program, the Village has benefitted during low claims years, but has experienced significant charges during high claims years which have occasionally required infusions of cash into our insurance funds. IRMA offers an alternative program where local communities pool their risk under an insurance pool that specializes in this risk environment. IRMA is comprised of 69 public entities and Arlington Heights would be its largest member. The theory behind pooling is that the annual insurance cost for member communities will be more predictable from year to year as high and low claim years are smoothed out across the pool. With this in mind, Staff held numerous meetings with IRMA representatives to gain a detailed understanding of IRMA's plan.

To completely compare the two insurance options required more specialized knowledge of the insurance field. The Village subsequently retained Wright Benefit Strategies to prepare a formal review of the costs and coverages of our current insurance program and compare it to the pooled risk plan offered by IRMA. Peter Wright completed this review and his recommendation is set forth in the attached **Executive Summary of Commercial Insurance and Pool Strategies**. A separate **Risk Pooling Proposal from IRMA** is also attached. By using actual claims data for the prior five years and insurance coverage information provided by A. J. Gallagher and IRMA, Mr. Wright's analysis outlines the following basic conclusions:

- On an average claims year basis, the Village could save approximately $230,000 or about 9% per year in total insurance costs by moving to IRMA.
- IRMA's plan includes a self-insured component, but at a much lower deductible of $100,000 per claim. The Village's current self-insured retention (SIR) levels are $750,000 for Workers' Compensation and $1 million for General Liability claims.
- IRMA offers cyber security and terrorism coverages at no extra cost.

Mr. Wright recommends that the Village join IRMA.

IRMA offers some opportunities that are not available from GB. One is that the Village would be eligible for IRMA grants that would cover a portion of the cost for the new power cots being installed in the Village's ambulances. On the Workers' Compensation claims side, IRMA assigns a Nurse Case Manager to all claims where an employee is missing work. The nurse frequently attends medical appointments, monitors treatment and progress and makes recommendations to ensure the injured worker returns to work as fast as possible. The Village will receive emails from the nurses after every appointment to make sure the Village is aware of the status of all of our injured workers. GB generally assigns a Nurse Case Manager only to the bigger claims. It is anticipated that IRMA will be more aggressive in following up on employee's appointments and treatments in an effort to get our employees back to work sooner. In addition, IRMA offers a number of training opportunities aimed at preventing and reducing losses, and has a well-tenured and experienced claims administration staff, with an average tenure of 13 years.

Many of the other day-to-day insurance processes that Staff currently completes would remain essentially the same under IRMA's insurance program. However, one of the more substantive process changes that would occur with a move to IRMA relates to settlements – both lawsuits and workers' compensation cases. Currently, because the Village is self-insured, final settlement authority resides with the Village, up to the Village's SIR level. Accordingly, the current practice is that settlements over $20,000 (the Village Manager's authority) are submitted to the Village Board for approval, first in Closed Session, followed by formal approval at a Village Board meeting. IRMA operates more like a traditional insurance provider – settlement authority ultimately resides with IRMA. The

Village Board would not be required to approve any such settlement.

Village Staff will have input into the settlement discussions but the final approval of all settlements rests with IRMA. The IRMA Bylaws provide a procedure in which the Village has a right to object to a settlement recommendation; the issue would then be decided by a committee of IRMA members. However, should the Village wish to pursue a claim that IRMA has chosen to settle, the Village can do so at its own expense. There are some IRMA member communities who still take proposed settlements to their Boards in Closed Session to obtain the Board's opinion on a settlement, but there are many others who do not. According to IRMA's Executive Director, there have been very few appeals.

RECOMMENDATION: Enter into an agreement with IRMA to provide all of the Village's General Liability and Workers' Compensation insurance needs as of 6/1/17.

Due to contractual obligations, the Village's high level liability coverage through HELP will continue through 4/30/18, and the Village's existing Workers' Compensation policy would remain in place through 12/31/17. The existing General Liability policy would be cancelled as of 6/1/17 with a 10% penalty on the unearned premium or approximately $12,500, and IRMA would take over the claims administration duties for new claims as of this date. IRMA's fee for 2017 would be prorated for the inception date and would include deductions for the temporary continuation of the Village's existing HELP and Workers' Compensation policies.

ATTACHMENTS:

Description	**Type**
Executive Summary of Commercial Insurance and Pool Strategies	Report

THE VILLAGE OF ARLINGTON HEIGHTS
COMMERCIAL INSURANCE AND POOL STRATEGIES
Executive Summary

The Village of Arlington Heights provides property and casualty insurance coverage through a combination of self-insured retained losses, pooled excess coverage, and commercial insurance. Wright Benefit Strategies, an insurance and consulting firm, analyzed proposed costs and term for the Village claims, insurance, and administration services compared to costs assuming structural change by joining IRMA, a full risk sharing pool.

Arlington Heights purchases commercial excess coverage, claim administration, and participates in HELP, a governmental pool providing Excess General Liability coverage to members through a risk sharing agreement. The pool's third term will expire on April 30, 2018.

IRMA is a governmental pool of local municipal governmental units providing full property and casualty coverage through a self-insured pooling of claims above $2,500 per occurrence. Members may elect deductibles up to $250,000 per claim. The Village is considering IRMA's impact on administration, total cost and structure of risk assumed by the Village.

Recommendations: IRMA costs in most cases are below expected costs for the Village program today. Should the Village have significantly lower losses, IRMA costs would likely be higher than the stand alone program. However, IRMA allows the Village to shift liabilities for incurred claim events to the pool so that increases in incurred claims over time would be assumed by the pool. IRMA also provides for better insurance pricing and administrative service costs due to its larger size. IRMA essentially requires the Village to pre-fund liabilities for each year, which is reconciled once years are closed with actual contributions.

The Village would effectively outsource the management of the insurance program to IRMA, which would allow staff more time for management of other activities. IRMA does work directly with a member in the process of claim resolution, including recommending settlement. IRMA will in some cases allow the Village to be involved in attorney selection for higher cost, complex claims.The Village will have the right to appeal settlements which are not agreed to, but similar to conventional insurance IRMA coverage may be limited to the proposed settlement amount in the event a claim goes to court and the award exceeds the original IRMA proposed settlement.

As staff has noted inefficiencies in administration, particularly staff time involved in claims management, IRMA presents an opportunity to increase efficiencies of staff time in claims management. IRMA will require additional staff time attending Board meetings and participating in IRMA committees, however some aspects such as current program management and insurance renewal activities would take less time.

The combined benefits of lower costs based on average assumed losses, and shifting of longer tail liabilities to the pool suggest IRMA has strategic benefits for the Village that address Village needs and provide for more stable insurance costs. The Village would relinquish some control over loss settlement and independent management of the insurance program.

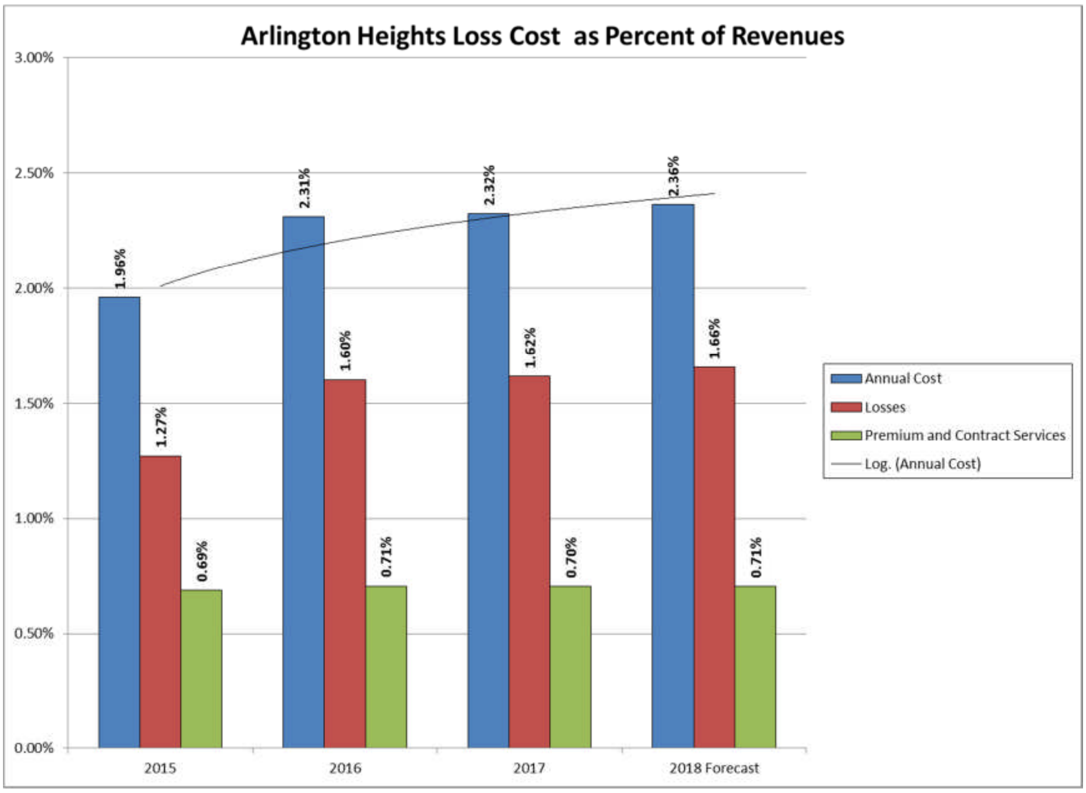
The following pages highlight the current program structure and historical cost to expected costs, general structure and reserve liabilities should the Village elect to join IRMA. Membership in IRMA should be expected to be for an extended period of time, although the Village would be able to leave at any time with nine months notice. The Village would not earn interest on reserves for five years, based on when years close.

THE VILLAGE OF ARLINGTON HEIGHTS
COMMERCIAL INSURANCE AND POOL STRATEGIES
Executive Summary

Background: The Village self-insures property, workers compensation and liability coverage with third party claims administration services. Insurance coverage is secured through Arthur J. Gallagher and Company. Excess liability coverage is provided through an excess policy up to $2 million and is pooled through HELP thereafter. The Village assumes the cost for all claims up to the retained limits, as outlined below:

Property	Liability	Workers Compensation	Crime
$100,000	$1,000,000	$750,000	$5,000

As a percent of revenue, Arlington Heights' costs varied between 1.96% of revenue to 2.32% of revenue, and are projected to reach 2.36% of revenue based on projected fixed costs and incurred claims. Incurred claims for future years are assumed to be the average trended losses from past years. Losses in this chart include the effect of incurred claim reserve adjustments.

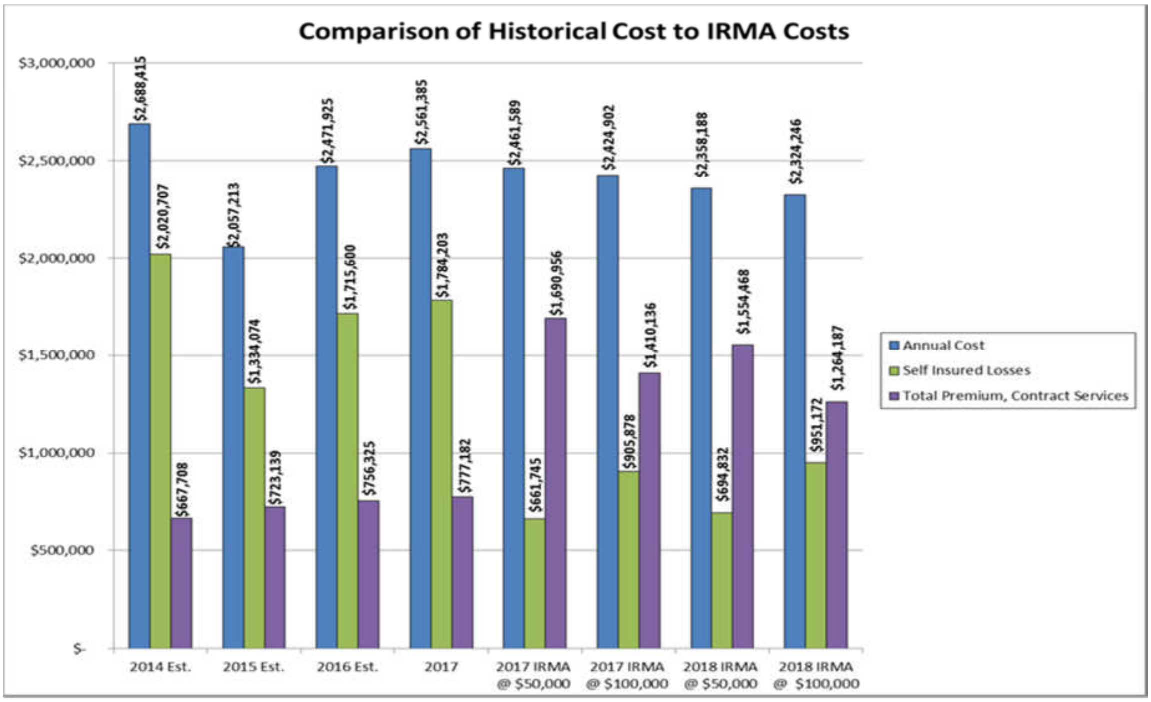


THE VILLAGE OF ARLINGTON HEIGHTS
COMMERCIAL INSURANCE AND POOL STRATEGIES
Executive Summary

IRMA is a risk sharing pool comprised of 69 municipalities in northeastern Illinois. Members pool contributions, and subject to a members preferred deductible level, self-insures claims below the deductible. Highlights of IRMA membership include:

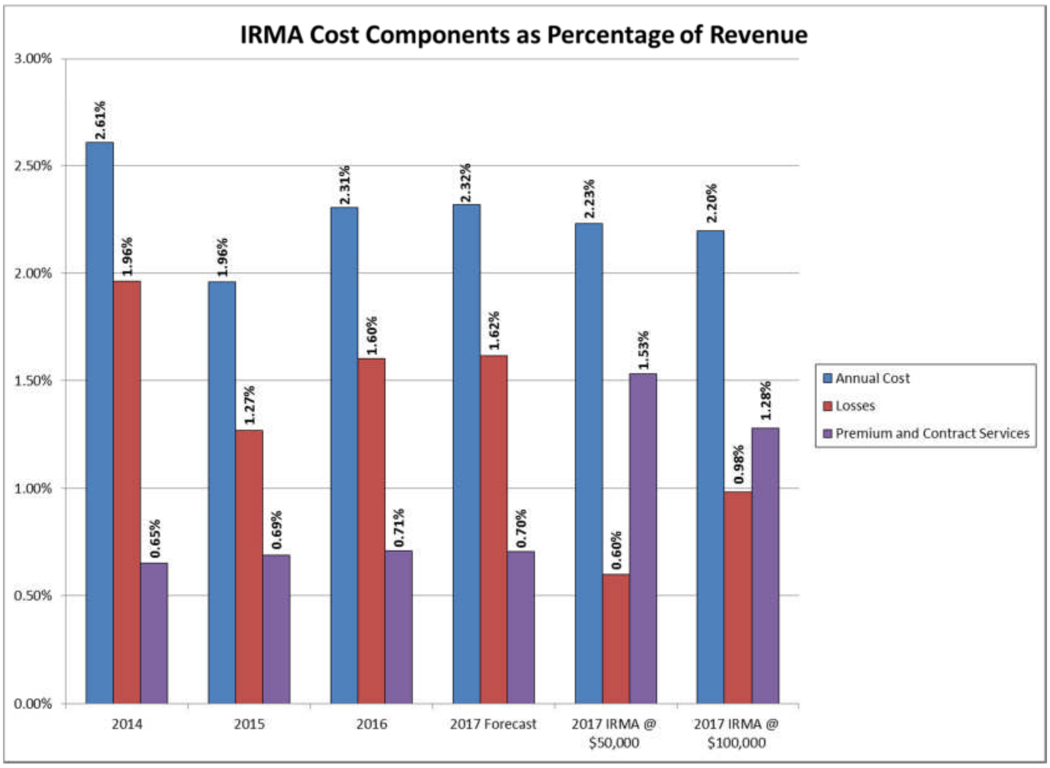
- IRMA's coverage limit is $15,000,000, including a $3,000,000 pool self insured retention for liability coverage. The liability limit is the same as coverage available through the Village primary $2.0 million layer, and HELP $13 million layer, including retentions.
- Each year, IRMA determines an overall contribution rate. The member rate is determined after adjusting for experience, and the member deductible credit is determined as a percent of the net contribution.
- IRMA staff provide claim administration and are responsible for all aspects of claim investigation, defense and settlement, in contrast to the Village assuming this responsibility.
- Loss settlement and final approval is coordinated with the member by IRMA providing notice of proposed settlement, with the member allowed to appeal the amount.
- Each member is required to fund reserves at inception of membership, paid over a period not to exceed five years.
- The pool invests reserves which over time has generated investment earnings. The investment earnings and surplus funds from prior years are shared annually with members as a credit to members reserve.

IRMA's projected costs are lower than "average" past history assuming IRMA coverage and contributions. IRMA's costs are based on an estimate provided to the Village for May, 2017 effective date. The chart below compares historical cost and projected 2017 cost based on actuarial claim estimates (mature claims), to projected IRMA costs assuming different deductible levels for 2017 and 2018.



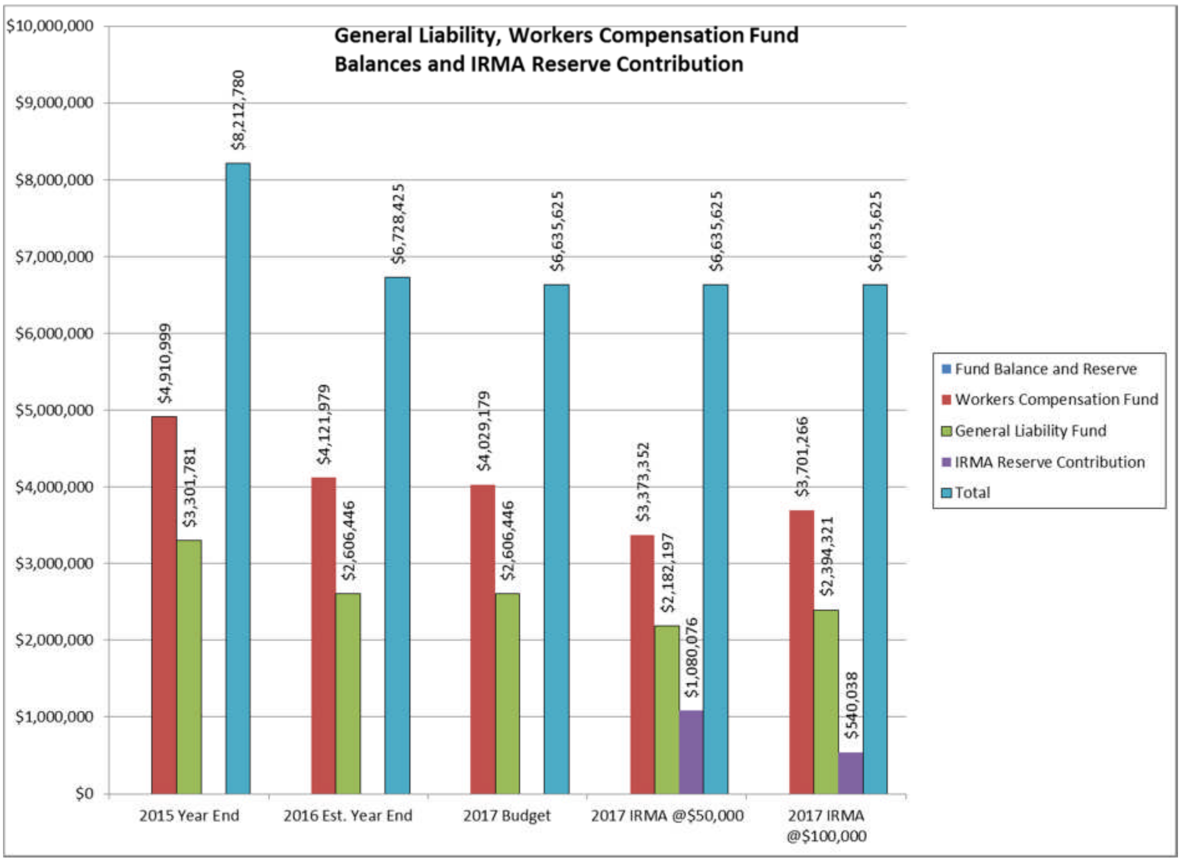
THE VILLAGE OF ARLINGTON HEIGHTS
COMMERCIAL INSURANCE AND POOL STRATEGIES
Executive Summary

The chart below highlights IRMA cost components as a percent of revenue, without reserve contributions.



THE VILLAGE OF ARLINGTON HEIGHTS
COMMERCIAL INSURANCE AND POOL STRATEGIES
Executive Summary

IRMA requires a reserve contribution of 25% of the IRMA contribution. The Village has adequate internal insurance funding to transfer a portion of the current fund balance to IRMA while retaining a balance in excess of implied incurred claim liabilities.



IRMA POOL VS. ARLINGTON HEIGHTS HELP POOL
COVERAGE AND LIMITS

Program	IRMA Pool Coverage		Arlington Heights with HELP Excess Pool	
Coverage	Limit (Includes Deductible)	Deductible (Options: $2,500-$250,000)	Limit(Includes SIR)	Deductible/SIR
General Liability	$15 Mil ($10 M, $5 M)	$100,000	$15 Mil ($2 M, $13 M)	$1 Million SIR
EMS, Fire Professional	$15 Mil ($10 M, $5 M)	$100,000	$15 Mil ($2 M, $13 M)	$1 Million SIR
Police Professional	$15 Mil ($10 M, $5 M)	$100,000	$15 Mil ($2 M, $13 M)	$1 Million SIR
Employee Benefits Liability	$15 Mil ($10 M, $5 M)	$100,000	$15 Mil ($2 M, $13 M)	$1 Million SIR
Public Officials Liability, Errors and Omissions	$15 Mil ($10 M, $5 M) Occurrence Basis	$100,000	$15 Mil ($2 M, $13 M) Claims Made Basis	$1 Million SIR
Employment Practices Liability	$15 Mil ($10 M, $5 M) Occurrence Basis	$100,000	$15 Mil ($2 M, $13 M) Claims Made Basis	$1 Million SIR
Work Products	$15 Mil ($10 M, $5 M)	$100,000	$3 Million	$1 Million SIR
Medical Expenses (GL)	$15 Million	$100,000	Not Covered	
Watercraft	$15 Million (under 26 Ft)	$100,000	$15 Mil ($2 M, $13 M) (Under 51 Ft)	$1 Million SIR
Public Crisis Event			$300,000	None
Nuclear, Biological Radiation	$10 Million	$100,000		
Zoning	$15 Million	$100,000	$15 Mil ($2 M, $13 M)	$1 Million SIR
Animals	No GL Coverage		$10,000	$1 Million SIR
Underground Storage Tanks	$5 Million	$25,000		
Auto Liability (any auto)	$15 Million	$100,000	$15 Mil ($2 M, $13 M)	$1 Million SIR
Uninsured Motorist	$500,000	$100,000	Excluded	Self-Insured
Underinsured Motorist	$500,000	$100,000	Excluded	Self-Insured
Crime		$100,000	(Limit below Excludes Deductible)	$5,000
Employee Dishonesty	$5 Million	$100,000	$500,000 (property contributory peril) $500,000 Crime	$5,000
Non-Faithful Performance	$2.5 Million	$100,000	$500,000	$5,000
Computer Fraud	$5 Million	$100,000	$500,000	$5,000
Forgery, Alteration	$5 Million	$100,000	$500,000	$5,000
Cyber Risk		$10,000	No Separate Coverage	
Breach Response	$100,000	$10,000		
Liability and Defense	$250,000	$10,000		
Named Malware	$50,000	$10,000		
Forensic Review	$15,000	$10,000		
Legal Review	$10,000	$10,000		
Public Relations	$5,000	$10,000		
Workers Compensation	$1 Million/Statutory	$100,000	$1 Million/Statutory	$1 Million SIR
Extractions, Emergency	$50,000		$50,000	
Inland Marine	$1 Million	$100,000	$500,000/Scheduled	$5,000 Deductible
Property	$250 Million	$100,000	$219,700,021 Scheduled $50 Million Premise Limit	Up To $100,000
Auto Physical Damage	$10 Million	$100,000	$8,552,900 ACV Loss	$100,000 Deductible
Fire/Ambulance >$75,000	Scheduled	$100,000	Scheduled ACV Loss	$100,000 Deductible
Flood and Earthquake Zone A	$40 Million $3.5 Million	$100,000	$50 Million $10 Million (7 Loc.)	$100,000 Deductible
Boiler and Machinery	$50,000,000	$100,000	$500,000, Scheduled	$25,000 Deductible
Builders Risk	$15 Million $1 Million Frame	$100,000	$1 Million	$25,000 Deductible

Based on Proposals and Coverage Documents provided. See actual Policy Details.

IRMA POOL VS. ARLINGTON HEIGHTS HELP POOL
COVERAGE AND LIMITS

Program	IRMA Pool Coverage		Arlington Heights with HELP Excess Pool	
Coverage	Limit (Includes Deductible)	Deductible (Options: $2,500-$250,000)	Limit (excludes SIR)	Deductible/SIR
Property (continued)				
Contractors Equipment	$1.1 Million /Scheduled	$100,000	$3,066,300	$5,000 Deductible
Errors and Omissions	$5 Million	$100,000	$1 Million	$25,000 Deductible
Outdoor Property	$1 Million	$100,000	$25,000	$10,000 Deductible
Ordinance Coverage	$5 Million	$100,000	$1 Million	$25,000 Deductible
Extra Expense	$2.5 Million	$100,000	$250,000	$25,000 Deductible
Personal Property Floater	$5 Million	$100,000	$250,000	$10,000 Deductible
Loss of Utilities	$1 Million		$1 Million	$100,000 Deductible
Newly Acquired Business Income			$250,000	$100,000 Deductible
Business Income Blanket	$25 Million	$100,000	$54,000	$2,500 Deductible,36 Hours
Dependent Business Premises			$250,000	$100,000 Deductible
Property In Transit	$1 Million	$100,000	$50,000	$2,500 Deductible
Newly Acquired/Constructed	$25 Million	$100,000	$2 Million	$25,000 Deductible
Under Construction	$15 Million	$100,000	$1 Million	$25,000 Deductible
Accts Receivable	$5 Million	$100,000	$25,000	$25,000 Deductible
EDP Equipment	$25 Million	$100,000	$1 Million	$25,000 Deductible
Computer Virus	$100,000	$100,000		
Fine Arts	$500,000	$100,000	$25,000	$25,000 Deductible
Sales Tax Interruption/Contingent Bus Income	$10 Million	$100,000	$55,200	$100,000 Deductible, 24 Hours
Hotel Tax Interruption	$1 Million	$100,000		$100,000 Deductible, 24 hours
Valuable Papers	$5 Million	$100,000	$25,000	$25,000 Deductible
Land and Water	Excluded	$100,000	$25,000	$25,000 Deductible
Sculptures	$500,000	$100,000	$372,000	$10,000 Deductible
Data Processing Equipment-New	$25 Million	$100,000	$1 Million	$25,000 Deductible
Electronic Data	$25 Million	$100,000	$250,000	$25,000 Deductible
Communications Property			$250,000	$25,000 Deductible
Preparation of Loss Fees	$50,000		$25,000	$25,000 Deductible
Debris Removal	$1 Million		$500,000	$25,000 Deductible
Malicious Programming-Inside	$500,000	$100,000	$100,000	$25,000 Deductible
Malicious Programming-Outside	$500,000	$100,000	$50,000	$25,000 Deductible
Pollution Clean Up	$1 Million	$100,000	$50,000	$25,000 Deductible
Fungus Removal	$250,000	$100,000	$50,000	$25,000 Deductible
Watercraft	$250,000 (<26 Ft)	$100,000	Excluded	$100,000 Deductible
Unmanned Aerial Vehicles	$100,000	$100,000	Excluded	
Police Dogs	$250,000	$100,000	$10,000	
Underground Tanks	$250,000	$100,000	$50 Million Premise Limit, covered peril	$100,000 Deductible

Based on Proposals and Coverage Documents provided. See actual Policy Details.

Item: Departmental Status Reports - Finance

Department: Village Manager's Office

ATTACHMENTS:

Description	Type
No Attachments Available	

Item: Departmental Status Reports - Fire

Department: Village Manager's Office

ATTACHMENTS:

Description	**Type**
No Attachments Available	

Item: Departmental Status Reports - Legal

Department: Village Manager's Office

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Description	Type
No Attachments Available	